

AMERICA'S STAKE  
IN BRITAIN'S FUTURE

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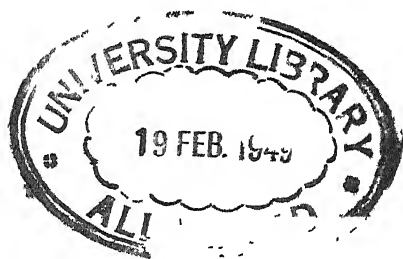
The Strength of Nations

The Coming American Revolution

A Planned Society

*America's Stake  
in Britain's Future*

GEORGE SOULE



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## INTRODUCTION TO THE ENGLISH EDITION

THE manuscript of this book was almost completed before the surrender of Germany. It was delivered to the American publishers soon after that event. The author received his galley proofs just in time to make any corrections necessitated by the victory of the Labour Party in the General Election of 1945. Page proofs were returned to the printer the day after the surrender of Japan. After the book had gone to press in the United States President Truman ordered the cessation of Lend-Lease, and the Anglo-American financial and commercial agreement was negotiated. This and the Bretton Woods Agreement have been ratified by Parliament. Both nations have begun the difficult task of remolding their economies for peace.

This is a time in which critical events overtake us with bewildering speed. If it were necessary, with every new development, to make drastic changes in analysis of the problems here examined, the author would have to write not a book but a weekly journal or a daily newspaper. Review of these pages on each of the occasions when opportunity to correct them has arisen has not, however, indicated a need for substantial modification. The problems remain; the possible modes of attacking them are not basically altered; and the significance of the choices of policy which have been or may be made is no different in 1946 than it appeared in 1945. The publisher and the author therefore have decided that the present edition should contain the same text originally published in the United States, and that the bearing of subsequent events should be briefly discussed in this Introduction.

The sudden termination of Lend-Lease by order of the President immediately after the surrender of Japan not only shocked British opinion but took Americans by surprise. There had been no popular demand for this action. While it was understood that Lend-Lease was an arrangement for the dura-

tion of hostilities and could not continue indefinitely, there was no legal necessity for ending it before the war was regarded as having come to a close for other purposes. Congress had not by resolution declared that the war was over, an action which would automatically bring into effect, after predetermined periods, the expiration of numerous other emergency measures. The powers of the executive were not altered, and such changes as were made in domestic controls were purely a matter of Presidential discretion.

The reasons for Mr. Truman's decision in this instance have not officially been made public. Less damage to Anglo-American friendship would have been occasioned if the action had been preceded by consultation between the parties leading to at least general understanding concerning the nature of a substitute, and if the termination had resulted from an agreement instead of being unilateral. The mistake, however, was one more of manners than of substance. In the end the same difficulties would have had to be adjusted, and mutually agreeable plans for the future would have had to be made. Postponement of the issue for a few months would have obviated irritation and discomfort, but could not have altered the future of the British people.

Near the beginning of Chapter III the author wrote not only that Britain would be reluctant to borrow from the United States but that a gift to bridge over the unfavorable balance of payments until exports could be sufficiently increased would be unwelcome to the British people. This judgment seems to be contradicted by the fact that the British financial mission asked for a grant without interest. In essence, however, the author still believes that his statement was true. It was embarrassing to make this request and to suffer the indignity of its refusal. The mere fact of financial dependency on an Ally was and is irksome. The virtue of Lend-Lease was that it had been conceived in terms of mutual advantage and had matched the greater sacrifice of the British against the greater physical resources of the United States. The failure of the American authorities to recognize the continued pertinence of these

considerations for a period after military victory had been won is a failure not of generosity but of imagination. It was only partially redeemed by the decision to cancel the unbalanced Lend-Lease "debt" already incurred.

The financial agreement, though reluctantly ratified by Parliament, has not at this writing been accepted by Congress. If it should be rejected the whole issue would be reopened. Possibly some substitute arrangement could be devised, though the chances would seem to be that Britain would be compelled to try a course advocated by those who oppose multilateral trade. If Congress should ratify the agreement the question remains whether Britain would benefit.

If one concentrates on the substance of the agreement rather than on the words employed, the terms are less onerous than they might appear without careful study of their detailed provisions. There is no fixed loan, but a line of credit which may be used as the occasion arises. Neither interest nor payments of principal are to be due until the end of 1951. Both together are annually to amount to slightly more than 3.18 per cent of the borrowings outstanding on that date. Interest payments are to be waived in any year if for the preceding five years the average income of the United Kingdom from exports both visible and invisible is less than the average for 1936-38, changes in the price level being accounted for.

This proviso will in effect make the credit a loan without interest unless and until, for a period of five years, British real income from abroad reaches the pre-war level. It should be specially noted that incomes from foreign investment, shipping services, and the like are regarded as invisible exports, and therefore no interest will be due unless Britain makes full recovery from the war inroads on these sources of income. This would imply an increase of 75 per cent or more in the value of commodity exports above 1936-38. Once Britain had hit this foreign trade target payment of interest on borrowings up to \$3,750 million at 2 per cent, or a maximum of \$75 million annually, ought not to be too heavy a burden. If Britain does not achieve this goal her difficulties will arise from the lack of

sufficient exports rather than from the fact that she was obliged to borrow money to help her over the transition period. The basic problem remains the same as if it had never been necessary to negotiate a loan.

The bearing of the financial agreement on Britain's ability sufficiently to enlarge exports is the chief consideration. In general it seeks to pledge both nations to a multilateral system rather than allowing either to use measures regarded in the United States as "discriminatory". The issues involved in this choice are those discussed in the present volume.

Even in this respect the agreement permits a good deal of flexibility, emphasizing not so much specific means as the ultimate goal. Let us examine, for instance, what it stipulates regarding the rationing of dollar exchange within the sterling area. This is to be abandoned one year after the effective date of the agreement unless a later date is made necessary by exceptional events. The end of exchange rationing, however, applies only to receipts from current transactions and not to dollar exchange already impounded. Even without this agreement it is questionable how long, in times of peace, the sterling area countries would be willing to sanction the pooling of dollar exchange in the interest of Great Britain. Exchange controls, though permitted, are not to be applied in such a way as to interfere with the payment for current transactions. But this does not mean that Britain may not limit her imports. She may do so provided the restriction does not discriminate against imports from the United States. It is not to be regarded as discrimination if Britain uses inconvertible currencies for needed imports, or if Britain places orders to relieve a country whose economy has been disrupted by war.

There is a further proviso which is still more important. The rationing of dollar exchange during the war was prompted by the fact that there were not enough dollars available for the countries which wished to spend them. The same necessity might arise in peacetime if the United States should develop an excess of exports over imports, without extending sufficient foreign loans or investments, so that dollars became scarce.

This was the situation in the depression of the thirties. The "scarce-currency clause" of the Bretton Woods agreement permits the pooling and rationing of dollars (or any other currency) under such circumstances. The Anglo-American financial agreement makes specific exceptions in the application of any of its clauses which might conflict with such action on the part of the International Monetary Fund. Therefore something very like the dollar pool of the sterling area may be restored by international agreement at any time when it may be necessary.

The disposition of sterling balances accumulated in Britain during the war (or subsequently for military purposes) is to be settled by agreement between Britain and each of the countries concerned. Proceeds of the line of credit from the United States are not to be used to repay them. This condition is certainly to the advantage of Britain, since she needs the dollars for current imports. It is proposed to seek the downward adjustment of the sterling debts as a contribution to postwar settlement. That is desirable not only for Britain but for the general welfare. The remainder will be partly released for immediate use and partly released in future annual instalments. The whole operation will thus be the equivalent of funding the sterling debts. Whatever sterling is released will be available for purchases not only in the sterling area but anywhere. This means that the creditor nations need not buy exclusively in Britain to collect what is due them, but may buy in the United States or elsewhere as well.

The individual British exporter may regard this freeing of blocked sterling exchange as unfair to him. He may see an order which he might have had going to an American competitor. If so, however, something else will happen that he does not see. The purchaser will have to exchange his sterling for dollars in order to buy in the dollar area. That means that someone else must exchange dollars for sterling. The sterling will not disappear; somebody will have it, and it will have to be used, if it is used at all, for purchases from the sterling area. The debt cannot ultimately be discharged without equivalent

exports from Britain. The national interest of Britain would gain if it could, since exports to pay debts buy no new imports in return. But actually it is a matter of indifference to the national economy whether the debt is paid directly by exports from Britain to creditor nations or in a roundabout way by exports from Britain to someone from whom the creditor nations buy. The provision is not one for permitting American exporters to share in trade which might have been exclusively British, but is intended to permit both to gain from the supposed benefits of multilateral trade.

In a joint statement accompanying the financial agreement the United Kingdom expresses its support of the important points in proposals by the United States to be submitted to an international trade conference. These proposals are intended to set the course of policy for the longer future. While in general they are aimed at removing restrictions, they are far from being a complete endorsement of *laissez faire*.

The first proposal is that each participating nation should undertake to maintain full employment within its own borders, and should do so by measures which do not increase unemployment in other countries or interfere with the expansion of international commerce. Achievement of this aim is recognized as a "necessary condition" of an enlarged volume of trade. While there can be no guarantee that any nation will fulfill such a pledge, acknowledgement of the principle, especially by the United States, is not without significance. Full employment in the United States would necessitate a real national income at least 50 per cent above prewar levels, and imports by the United States have in the past varied almost exactly as the national income. In view of the overwhelming importance to world trade of purchases by the United States success in this undertaking would render Britain's task easier.

It is also proposed to form an International Trade Organization, members of which would engage to reduce tariffs and preferences, eliminate quantitative trade restrictions, abolish export subsidies, and curb restrictive practices of international cartels. The effect of Imperial Preference on British trade is

discussed in the body of this book. The evidence seems to show that its abandonment would not injure exports from Britain in an active world market, while reciprocal tariff reductions by the United States would help to expand those exports. The provisions regarding removal of quantitative trade restrictions, subsidies, and exchange control are full of exceptions which would allow these devices to be applied where necessary in the transitional period, or for special emergencies, or when required to maintain an international balance of payments. In other words, if general trade expansion should not be achieved, protective measures which Britain might favor in such circumstances would be sanctioned. State trading is expressly permitted, on condition that purchases and sales be non-discriminatory, their allocation among sellers or buyers being influenced solely by commercial considerations. International commodity agreements are also permitted under principles which would protect the consumers and would first of all attempt to reduce unsaleable surpluses by reductions in price.

Britain is bound to these proposals only to the extent that they may be adopted, after possible modification, by the international trade conference. She is pledged to work toward the goal of multilateral trade so long as multilateralism leads to expansion of the world economy, but is not required to eschew safeguards in case it does not do so. Thus, she is prevented only from setting out at once on the project of building a limited trading area which might be insulated from American depression or competition before waiting to see whether multilateralism succeeds.

Finally the tendency of economic events in the United States since the victory over Japan should be briefly outlined.

The fear commonly expressed in Britain that, because of its immense increase in productive capacity, the American economy would seek to relieve domestic unemployment by maintaining a large export surplus through loans or subsidies is far from being realized. Though technical reconversion has been rapid, production of civilian goods of all kinds lags far behind the demand. The growth of production has been

delayed by strikes and the necessity of making a complicated readjustment of wages and prices. Numerous industries have also suffered from labor shortages. In spite of these difficulties the index of the physical volume of industrial production was in December, 1945, 162, or exactly the same as for 1941, which was the year of largest peacetime production in the history of the nation. In 1940 the index had been 125. This volume of production is far from satisfying the current domestic demand, which is stimulated both by the accumulated deficiencies of war and by ample purchasing power.

Non-agricultural employment, though it has fallen from the war peaks, has been rising and stands at about the level of 1941. The aggregate value of income payments has scarcely dropped below the 1944 level, the index number for December, 1945, being 233·8 against 233·4 for 1944. This compares with 138 in 1941. Price control has so far succeeded in preventing the cost of living from rising in anything like the same proportion, the official index number being about 25 per cent above the 1941 level. In addition to the current income available for spending there is an accumulation of more than \$140,000 million of war savings, about half of which are in the form of currency and bank deposits.

The consequence is that the domestic market will for some time absorb almost everything that can be produced. The urgency is to increase production rather than to relieve unemployment. The prevalent fear is that price inflation will become uncontrollable. Strong resistance has developed to the proposed British and other foreign loans because of the effect of exports in diminishing domestic supplies and stimulating inflation. The immediate danger is not that the United States will attempt to relieve unemployment by pushing exports, but that she will not give sufficient aid to reconstruction in other nations.

This shortage of domestic supplies is doubtless temporary, and may eventually be succeeded by the surplus which British commentators have feared. Although Congress has passed a watered-down version of the administration's full-employment



bill there is no assurance that a depression may not follow the satisfaction of the war-created backlogs of demand. When this would occur it is difficult to estimate. There is almost certain, however, to be an intervening period in which the scarcity of goods and the rising tendency of prices in the United States will leave plenty of opportunity for such British exporters as can fulfill demands for their products. Men of good will in both nations still have a little time left in which to assure the political and military security and the economic stabilization on which may be built that expanding global economy which is the prime essential both for their populations and those of the rest of the world.

GEORGE SOULE

*March 1946*

## FOREWORD

THE AUTHOR visited England in a purely unofficial capacity. He did not, and does not, speak for any government or for any other interest. During the dark December and January of the last year of the war in Europe, when rockets were falling from the stratosphere, when weariness had become almost unendurable and hope was deferred by the German offensive in the Ardennes, persons in many walks of life—economists, businessmen, engineers, labor leaders, government Ministers, Members of Parliament, civil servants, journalists, physicians, members of the armed forces both British and American, American officials and experts, housewives, workers, strangers in pubs and trains—found the time and took the trouble to discuss with him in detail and at length the subjects with which this book deals. To mention all their names would be impossible; it would also in many cases be a breach of confidence, since the conversations in question were frank and off the record. But the author feels a deep obligation to thank any of those into whose hands this book may happen to fall for their interest, courtesy, and hospitality. Without their honest expressions of opinion, the information they freely offered, and the trouble they incurred, the book would have been impossible.

Particular thanks are due to the staffs of the Ministry of Information, the Office of War Information, American Ambassador John G. Winant and the staff of the American Embassy, and the staff of PEP (Political and Economic Planning) for assisting the author in meeting those who could help him and suggesting to him sources of information. Needless to say, the opinions here expressed are the writer's own and should not be attributed to any of these sources.

Acknowledgement must be made to the *New Republic* for permission to include passages from articles (some originally signed and some unsigned) that first appeared in its pages.

GEORGE SOULE

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## THE SAME WORDS: A DIFFERENT LANGUAGE

AFTERDINNER speeches celebrating Anglo-American harmony always emphasize the fact that the two peoples speak the same language. It would be difficult to discover a more treacherous support for the conclusion that they are more likely than any other pair of nations to remain on friendly terms. Words may be used not only as instruments with which to search out agreement, but as weapons with which to promote hostility. Even within a single family, readiness of understanding does not always aid cordiality of feeling. The chances of discord are enhanced when, as is often the case, persons who use the same words mean different things by them. To each speaker the word carries a train of associations and overtones of feeling dependent upon his own experience. If differences can arise even among those who have shared the same parents, household, or city, how much more likely are they among those who have never seen each other and have been cradled in different national traditions and cultures? In this sense, two peoples who use the same words may actually be talking a different language. Indeed, it has been cogently maintained that the British and the Americans would have a better chance of remaining friends if their respective languages were so different that nobody in one nation thought he could understand the other except through the medium of a careful translation, which would take into account the background of meaning as well as the deceptive superficial notation of words.

Another popular assumption which has gone far to bedevil Anglo-American relations is that these two peoples have, aside from their supposedly common language, a close kinship which sets them at least a little apart from the rest of the nations. It has frequently been said that the blood of one runs in the veins of the other, or

that one is the mother and the other the daughter country. Sometimes, less crudely, the theme is stated in the form that they share the same literature and the same traditions of government and individual ethics. It would be possible, if it were worth while, to produce a long scientific treatise proving how slender is the basis for such assertions. Even at its birth, the United States contained a population of varied national origins, and the mixture has been greatly increased during the hundred and sixty years of its existence. Its political, social, and aesthetic customs have been subject to many diverse influences, by no means least among which are the experiences of its own people in its own land.

Aside from the fact that the tradition of kinship is not true, or at least embodies a narrowly limited truth, the frequent emphasis on this aspect of Anglo-American relations does as much harm as emphasis on any sentimental slogan. On the one hand it serves, among those in each nation who bear good will toward the other, to obscure both the real differences which may lead to friction and the more solid bases of agreement. There is little hope for enduring cooperation if it must rest on family pride, parental affection, or filial duty. On the other hand, this emphasis induces a juvenile counter-suggestibility among those who are intent upon proving that they are genuine Americans rather than members of the British family. To persons in this mood, the Declaration of Independence has much the same emotional force as the farewell note left by an adolescent boy who has made up his mind to run away from home. Persons in this state of mind react to suggestions that it would be well for the two nations to cooperate by expressing the fear that innocent and pure-minded Americans may be influenced to aid the nefarious designs of an older and dominating relative. Colonel Robert McCormick of the *Chicago Tribune* talks like this when he argues that Americans on the Eastern Seaboard retain a colonial homage to England because the states in which they live were settled colonies before the American Revolution, whereas citizens to the west of them are capable of true American independence because their states were carved out of the wilderness after the United States became a nation.

It is not the purpose of this book to promote Anglo-American understanding on any sentimental ground whatever. The reasons for harmony that seem valid to the author ought to seem just as valid to him if he were a Frenchman or a Russian or a Venezuelan or a Patagonian. The basic assumption is that another world war will be much more likely if Great Britain and the United States do not seek common ends by harmonious means. It is an integral part of this assumption that the world cannot be well fed, well clothed, well housed, and well educated—in other words, that it cannot have the kind of peace which it will want to preserve—unless the two great Western powers cooperate for the welfare of their own peoples. This may sound like the beginning of an argument for an Anglo-American imperium which does not take into consideration the other great powers, and to which smaller nations will be subservient. Nothing is further from the author's intention. This discussion is centered on the need for cooperation between Britain and the United States, not because there is not so great a need for cooperation with the Soviet Union, China, and France, or indeed with all the nations, but because, as will appear, the two great Western Allies occupy a central position in the world economy, and because there is more danger that they will take divergent courses than that significant differences will arise between either of them and any of the other great nations concerned.

Those who are laying the foundations for international peace have placed first emphasis on the political and military provisions embodied in the Dumbarton Oaks agreement. This plan for security against armed aggression has naturally occupied the foreground of public discussion. Essential though some such organization is, it would be a fatal error to assume that nothing else is necessary to assure future peace. It may be a cornerstone without which the structure of international organization could not be erected, but it is a cornerstone which will be without significance or value if the builders quit the job as soon as it is laid.

The essence of the international security plan is that those nations which have overwhelming military and economic power band together to preserve the world against any new threat like that

recently embodied in Germany and Japan. If the population of the earth is to feel a real sense of security, which will permit energy to be devoted to anything beyond national defense, there seems to be no escape from an agreement of this kind. But there will be no security in fact unless the great powers are as ready to act together, and to act promptly, fifteen or thirty or fifty years from now as they are today. There is nothing whatever to protect the peoples against the consequences of possible disagreement among the Big Five. Insofar as the task of preserving peace is regarded as checking the possibly aggressive intentions of a revived Germany or Japan, a rift among the focal nations of the Great Alliance will be just what the aggressors need. This will be as true at any time in the future as it has been since 1939. If no new menace arises from the nations defeated in this war, the only chance of a new world war would arise from a split among the remaining great powers.

The hope that a fatal division may be avoided is not a mere wishful dream. In the most general of terms, the nations which have won the war have no good reason for fighting each other or turning aggression against the smaller peoples. Before Hitler struck, Nazi and Japanese propaganda labeled them "satisfied" powers, who had already acquired all the territory they needed. In other words, they are not latecomers on the scene who are likely to create a disturbance by overrunning other peoples' territory. Each of them is, moreover, basically concerned with developing the possibilities of life within its own boundaries for its own people. None of them has an historic dominant tradition that glorifies war for its own sake. There is, therefore, no ground for a pessimistic prediction that these powers must inevitably fall to quarreling, as great powers have always done in the past. But there is equally no ground for the optimistic prediction that they certainly will not do so. Whether they do or not will depend upon the national policies they respectively follow. If these policies come into conflict, war may prove to be as much a continuation of national policy in the future as it was when Clausewitz first coined the phrase.

The area in which the more menacing conflicts may arise, and, indeed, have already arisen, is economic rather than political. In



using the words "economic" and "political" to draw a distinction, we are employing common stereotypes which are far from meaningful. In fact, economic and political matters are so closely intertwined that it is impossible to separate them. It would be more accurate to say that the United States and Great Britain are not likely to quarrel over the possession of any specific piece of territory or about the exercise of the governmental jurisdiction of either in any particular part of the world. Britain, for instance, will not challenge the Monroe Doctrine by seeking to extend the domain of the Empire on the American continent, and the United States will not attempt to wrest any possessions from the Empire. Collisions may arise rather over such subjects as finance, trade, and domestic economic policies.

Many influences other than economic motives affect the actions of men and nations, but it is not necessary to adopt an exclusively economic interpretation of history in order to understand the importance of economic policy in human relations. Indeed, quarrels that are stated in economic terms may act as a focus for passions disproportionate to the amount of gain or loss involved. Latent aggression, feelings of pride and dignity, ideas of human justice may all be mobilized by a strike which technically is called to gain a few cents more an hour, or by an international dispute about import duties or money policies.

It is a commonplace of American history that differences of this kind have caused more trouble between America and England than any other source of possible dispute. The War of Independence, which originally separated the two nations, was mainly characterized by issues of this nature. Every American schoolboy remembers the slogan, "Taxation without representation is tyranny." The grievances of the colonists covered the whole range of economic imperialism. They were debtors and often suffered a shortage of money with which to pay their debts. Their impulse was therefore to issue an abundance of money in this country, whereas the British government strove to restrict such issues in order to avoid inflation and consequent depreciation of the means of payment. Americans wanted to manufacture for themselves, whereas the British wanted to exchange manufactured products made in England for American

raw materials, and so placed legal obstacles in the path of industrial development in this country. Americans wished to buy and sell profitably wherever they could do so and to carry the goods in their own ships, but the British government wanted to limit their trade and shipping in the interest of English commerce.

The attitude of England in these matters did not arise from any abstract political principles or from a desire to antagonize and oppress the colonists. It was the natural expression of a domestic economic policy, prevalent at the time, which economic theorists subsequently described by the name "mercantilism." In brief, this body of doctrine held that the more a nation's activities resembled those of an individual merchant who tries to enlarge his sales, restrict his expenditures, and prevent competition in so far as possible, the more the nation would prosper. Government intervention was called upon to further these aims, and political control of colonies in the interest of traders in the home country was the natural result. It must not be supposed that the struggle of the American colonists for freedom from British regulations was actually the expression of a more enlightened economic theory. The government of the United States itself, once it was established, employed from time to time policies that were essentially mercantilist in nature. An obvious instance was the protective tariff.

The second war in which the United States and England were on opposite sides—called in this country the War of 1812—likewise had economic origins, as far as America was concerned. Great Britain was fighting Napoleon and was using her naval power to keep supplies from his armies. American traders and shipping men wished to participate in this profitable trade, and since they were not at war with France, they saw no reason why the British navy should interfere with their activities. Other issues came to be involved, but in the main, this was a struggle on the part of the United States for "freedom of the seas."

During the American Civil War, the same issue arose again, but with a reversal of roles. The North was blockading the South, whereas the English were trying to carry on trade with the Confederacy. They thus became the advocates of neutral rights, while

the government at Washington strove to interrupt sea traffic with its enemies. The southern states had strong economic ties with England because the British textile mills were entirely dependent for their material on cotton from this country, and British manufacturers in general sold many goods to the agricultural South. In this sense they were competitors with the manufacturers of the northern states. Sharp conflicts arose over incidents caused by the acts of the United States navy in enforcing the blockade. Any one of these might have served as a *casus belli*, and war with England was narrowly averted. If immediate economic interests had actually determined governmental action, hostilities would probably have broken out. Fortunately, however, the strong moral interest of large sections of the British public in the anti-slavery issue, combined with the prudence of statesmen on both sides of the Atlantic, averted this calamity.

In the long period of peace that ensued, economic difficulties arising from divergent interests or policies were seldom absent from Anglo-American relations. The English had been heavy investors in this country, both as lenders to state governments and as purchasers of the bonds and shares of private enterprises. Many defaults occurred in the payment of interest and principal. As far as the private investments were concerned, the losses were written off as an incident to the risk of the market, although it cannot be said that they improved international good feeling. But the English regarded the governmental debts as a more sacred type of obligation and made many futile attempts to collect them, both through the courts and in diplomatic channels. A large part of these defaulted obligations remain unpaid to this day, although the governments in question are regarded as solvent.

During these years Great Britain, having abandoned mercantilism, was practicing freedom of trade, and naturally wished other countries to do the same. She believed it to her interest to have world-wide markets in which she might buy what she needed wherever it could be found in the best quality and at the lowest price and in which she might sell what she produced to any customer who might want it. This was a natural position for a nation which had

early developed industrial supremacy and facilities for world trade like shipping, banking, insurance, and a stable currency. At the same time, however, the United States was attempting to encourage the development of industry in this country by reserving the domestic market for home industry by a protective tariff. The foreign economic policies of the two countries were thus in fundamental conflict, and feelings were not always cordial. One important reason why more trouble did not arise was that in the general expansion of both the world economy and the economy of the United States, each nation had plenty of room for its activities without causing much damage to the other. Even commerce between the countries grew in spite of tariff obstacles, because the expansion of the American market was so rapid that the barriers placed in the way of specific imports did not suffice to decrease British trade with us as a whole. The fact that this nation was, on balance, in debt to Great Britain, and had to pay annually a substantial amount in debt charges, enabled us to maintain a considerable export surplus of agricultural products without taking an equal value of goods in exchange.

At the time of the First World War the same old conflict arose about freedom of the seas, with the roles of the two nations again reversed. In the period of American neutrality both Britain and the Central Powers were eager to buy in this country and both wished to interrupt the trade of the other. The government in Washington took its stand on the traditional rights of neutrals to trade, and so incurred diplomatic controversies with both groups of belligerents. In the early part of the war the British navy was much more effective than the German in stopping American shipments, and therefore the controversy with the British was more acute. It was only the fact that German submarine warfare eventually became more ruthless than the activities of British naval vessels on the surface which shifted the balance in the other direction. In the meantime, the effectiveness of the British blockade had virtually stopped trade with Germany and its allies, so that there arose a substantial community of economic interest between American farmers and manufacturers on the one hand and the British war agencies which were

buying from them on the other. It is not necessary to suppose that the economic motive was dominant in pushing America into the war on the side of the Western Allies in order to see that it made such a decision much easier than the opposite one. The controversy about neutral rights was, in fact, submerged by more weighty considerations. Nevertheless, for a while it threatened serious trouble.

Nor did the fact that the two nations had fought against the same enemy prevent irritation from subsequent economic disagreements. As a result of the immense volume of munitions and supplies sold by this country, we had become a creditor nation instead of a debtor, as we had been for many years before the war. Many British investments in the United States had been sold to pay for American goods during the period of our neutrality. After our declaration of war, Britain had been the principal borrower on governmental account. Now our government attempted over many years to collect what was formally due on the debt. Naturally, it was extremely difficult for a country like Great Britain, which had built up its economy very largely on the basis of a surplus of imports, a substantial part of which were paid for from the net yield of foreign investments, to shift over to the role of a debtor nation and develop a surplus of exports. In the United States few understood this difficulty, and American officials stood pat on the principle that Britain owed the money and ought to pay it. At the same time, however, the United States found it just as difficult to shift from the position of a debtor to that of a creditor, and to accept the excess of imports over exports which would have been necessary if the debts were to be paid. Instead of reducing our import duties, we actually increased them. Thus the British, who did not really wish to default, were annoyed by our actual unwillingness to receive the payment which officially we kept demanding.

The war debt issue was a potent source of popular ill feeling in both countries for a decade, because it was the kind of issue which furnished material to those newspaper writers and members of Congress who oversimplified economic questions and wished to enlarge their following by twisting the lion's tail. Actually, however, it never threatened to develop into a serious political crisis, because the bet-

ter informed and more responsible leaders understood how futile the argument was. Little by little the public accepted the conclusion that great war debts of this nature either cannot or will not be repaid in full. Certain other controversies, however, though they did not receive such wide publicity, created more annoyance among the centers of power in the two countries.

One concerned the price of crude rubber. The chief source of this important material, as the American public has been taught by hard experience since Pearl Harbor, lies in Malaya and the Dutch East Indies. The Malayan rubber planters, who believed their selling prices too low, received the aid of the British government through the Stevenson scheme to restrict exports. This plan was for a while so successful that it raised prices far too high to suit the manufacturers of tires and other rubber products. The consumers of the rapidly growing automobile traffic in this country also suffered. Herbert Hoover, as Secretary of Commerce, carried on a vigorous campaign against this restriction, which he regarded as an economic iniquity. The policy probably would have come to grief in the natural course of events even if he had not opposed it, because like so many plans of the kind it encouraged production in regions not subject to the control, as a result of the high prices which it brought about.

It is important to remember the incident, transitory though it now seems, because it is an example of the cartel control in which the British and other foreign governments are likely to have an interest, but which arouses resentment in the United States. The support of the British government was, of course, in part brought about by the influence of the wealthy interests engaged in producing rubber, but the government had a public purpose as well. Ever since the First World War most of the world outside of the United States had been suffering from a shortage of dollars. Other countries needed to buy from us and also needed to pay debts to us, while we showed considerable reluctance in importing from them. The result was a recurrent tendency toward an excess of payments to the United States over outgoing payments. This naturally led to a scarcity of dollars in the world market. If citizens of the United States can be made to pay more for the things they have to buy abroad, the supply

of dollars available to other nations will be increased. Thus there is an excuse for a deliberate commercial policy on the part of these other nations to maintain high prices on goods produced in their territories and sold to the United States. Such action may be self-defeating, since total sales at a high price may be smaller than total sales at a lower price. But insofar as this is not true, the interest of the British economy may run counter to that of the American consumer, at least as long as there is a scarcity of dollars.

In the latter part of the first postwar decade, there occurred another economic conflict between Britain and the United States which had extremely serious results, although it was shrouded so tightly in the technical mysteries of banking and foreign exchange that most Americans never knew anything about it at all. The British government was at the time still firmly attached to the financial orthodoxy of the nineteenth century. Under its conservative leadership it went back to the gold standard at the prewar parity of the pound. As some advanced economists pointed out at the time, this was a reckless thing to do because costs of production and prices in Britain were considerably higher than before the war. The folly of this decision would have been mitigated if the other important industrial and trading countries had also gone back to the prewar parities of their currencies and had had an equivalent rise in costs and prices. But this was not the case.

France reestablished the gold standard with a drastic devaluation of the franc, and French prices did not rise correspondingly. Though the United States had retained the gold standard and did not devalue the dollar, prices in this country after the slump of 1921 remained closer to the prewar level than did British prices. The consequence was that it was cheaper for other nations to buy goods in France and in the United States than to buy them in England. Exports from England to both France and the United States were also discouraged. The balance of trade began to turn against England and there was less demand for pounds than for dollars and francs. Since all the currencies concerned were freely convertible into gold, gold flowed out of England every time the pound bills of exchange became worth less in terms of dollars or francs than in

their gold equivalent. England's scanty gold reserves were in continual danger of disappearing abroad. In the meantime, of course, British trade and employment suffered. The situation was naturally aggravated by the fact that Britain had become a debtor nation, at least on paper, and was trying to meet payments on her war debts.

Why should this mistake in British monetary policy have aroused feeling against the United States? In order to answer the question, one must understand the theory of the operation of the gold standard, a theory to which both British and American authorities then adhered. When one country loses gold to another, the country losing the gold has a smaller base for its currency and credit. This is supposed to restrict loans and the circulation of money, and to enforce a reduction of prices in that country. We have just seen that Britain was suffering from exactly this influence, although the pressure on prices came fully as much from foreign competition and a reduction of demand for British exports as it did from internal credit restriction.

The country or countries gaining gold, on the other hand, have a larger base for currency and credit, and this is supposed to make money easy within their borders and to stimulate a rise in their prices. This price rise should theoretically help to correct the unbalance of trade and relieve the pressure on the exchanges. But this result did not occur in either the United States or France. British fiscal authorities accused those in control of our banking system of "sterilizing" our surplus of gold so that it could not facilitate an expansion of credit and a rise in the American price level. The Federal Reserve authorities, somewhat less orthodox than the British, were supposed to be managing credit in such a way as to stabilize American prices rather than allowing them to rise. As a matter of fact, it may be doubted whether their intention was as clear and their action was as effective as the British adherents of the orthodox gold standard believed. A major influence in the United States preventing a rise in prices was the rapid increase in technological efficiency, which tended continually to increase output and reduce costs. Nevertheless, many British spokesmen attributed the steadiness of American prices to what might be described as a combina-



tion of banking wickedness and lack of fair play on the part of American monetary authorities.

It is not necessary to trace the intricacies of central banking policy and foreign exchange in order to understand that, in a world which is supposed to benefit from a large interchange of goods and payments among countries, it is of the first importance that those countries follow parallel monetary policies. The incident here described is not mere ancient history, but has an important bearing on the future, because there is an imminent danger that the two greatest trading nations will again follow divergent monetary policies after this war. At the risk of taxing the patience of the reader, it may be well to outline some of the consequences of the conflict between 1925 and 1929. This may aid in understanding similar dangers in the future.

In the United States the stability of the domestic economy was being endangered not because, as the British bankers thought, we were not allowing our increased gold supply to have its natural effect in expansion of currency and a rise in prices, but probably because the reduction of costs of production, consequent upon increased technological efficiency, was not having its natural result of a sufficient fall in prices to the consumer. On this account consumption was eventually unable to keep pace with the rapidly growing productive capacity of the manufacturers. On this account, also, profit margins were increased, and the large profits encouraged speculation in securities. The big industrial concerns, because of their ample profits, had plenty of working capital and so did not need to borrow from the banks. This phenomenon reduced the power of the banking system, through its control of credit, to dampen down the boom. At the same time, the overflowing credit resources were being utilized by speculators in the financial markets, and helped to support the speculative mania which in 1929 collapsed with disastrous results, not only to Americans but to Englishmen and people all over the world.

During the early years of this speculation, there was a disagreement about credit policy within the Federal Reserve System itself. The New York Federal Reserve Bank, which had aided Britain's

return to gold and approved of the British policy, desired to aid that policy by keeping interest rates in the United States lower than those in London, and so discouraging the flow of gold from England to this country. It not only wished to maintain a difference in rates, but also to keep our rates as low as possible in order that Britain might not be obliged to maintain a rate so high as further to depress her economy. Others in the United States, however, notably the Chicago Reserve Bank, desired to raise interest rates in this country in order to discourage the dangerous speculation in Wall Street. For a time, the New York view prevailed. No one can be sure that a more stringent banking policy could have checked the speculation, even at its early stages, nevertheless, the attempt was not then made. Thus the British view was at least sufficiently influential in the United States to facilitate the very speculative excesses from which both nations suffered shortly afterwards.

In England, the prevalent unemployment, resulting mainly from the decline of export industries, helped to bring the Labour Party into power under Prime Minister Ramsay MacDonald. This government did not alter the nation's monetary policy, and the drain on gold continued. The Conservatives were quick to make political capital out of the situation and charged the Labour government with endangering the sacred gold standard. Mr. MacDonald, responsive to the pressure for economy and deflation, deserted his party and headed a coalition government composed largely of Conservatives. Not long after their return to power, the Conservatives themselves were compelled to abandon gold.

This experience has long rankled in the memories of the English, and all schools of thought, from Left to Right, are now resolved never to repeat the mistake. They fear not only too high a gold parity for their currency, but the gold standard itself. All this, as we shall see, forms the background for possible monetary disagreements after the present war.

The gold standard and stability of exchange values are prime examples of phrases that carry very different emotional significance on one side of the Atlantic than on the other. Englishmen are as wary of being tied irrevocably to either as a released prisoner is of being

returned to solitary confinement. Most citizens of the United States regard them as rather vague, irrelevant, and possibly desirable abstractions, while an influential group of bankers and economists are exhibiting a nostalgia for them, as if a return to monetary orthodoxy could reproduce what they regard as the happy economic conditions of the nineteenth century.

The great depression itself was regarded by many Americans, and especially by those who accepted the leadership of President Hoover, as something for which domestic policy was not primarily responsible. It was thought of as an international misfortune, an inevitable result of the dislocations of war. The obvious fact that it was felt internationally was taken to mean that its origins could be found outside the United States. Englishmen took at the time, and have since come to take in increasing measure, exactly the opposite view. The depression was felt much more severely in the United States than any other country in the world, with the possible exception of Germany. The failure of the United States to recover after the speculative crash of 1929 acted as a brake on world recovery. The United States is by all odds the richest country in the world, and when it is depressed its mere economic weight tends to drag everybody else down. The British regard the great depression as a result mainly of the inability of the Americans to manage their own economic affairs. Few Americans realize how keenly they fear the recurrence of this experience in the future.

In the time of the popularity of the New Deal in the United States, there was more harmony between the economic conceptions of the British and the Americans than for many years previously. This was not true in its early days, when the President devalued the dollar and obstructed international agreement on monetary policy, but it came to be true later, when the theories of John Maynard Keynes about fiscal policy were adopted by the Washington Administration. Deliberate governmental control to relieve and even to avoid depression, coupled with wide advances in social security, have come to be regarded in England not only as a desirable but a necessary line of action. The more cogent leaders of British economic thought wish to extend this policy to the entire world and so

desire to see it followed in the internal economies of the several nations. They were correspondingly disheartened when they saw the reaction against the New Deal in the United States and the tendency, not only of conservative forces in this country, but even of the Administration itself to return to the classical economic dogmas about governmental nonintervention and the capacity for self-regulation of private enterprise under competition.

This rapid summary of economic disagreements necessarily omits many important subjects. We may, however, top it off with a more recent example of divergent interpretations of the same situation because of a difference in experience. Many Americans think of lend-lease as a generous gesture on the part of this country for which the British are expected to be duly grateful. Our experience had convinced us that international debts incurred for war purposes are unsound and impossible to repay. When the war broke out in 1939 we therefore demanded cash on the nail for everything bought here by England, and forbade lending to belligerents. As the threat of the Axis grew, and as we became more concerned that the opponents of Hitler should win, we decided that this was driving too hard a bargain. We therefore offered to let Britain have whatever she needed without either paying cash or borrowing the money necessary to settle the accounts. We recognized that this was ultimately in our own interest, but nevertheless we felt a glow of satisfaction that we had been able to take the large view and act like a rich uncle.

How many Americans know that, in spite of full appreciation of what this country did in producing and distributing war materials, lend-lease gave rise to a good deal of irritation in England? It came to be regarded as a necessary war burden, to be dropped as soon as possible. Strange as this attitude may seem, it is natural when its basis is understood.

During the days of cash and carry, Britain was straining every nerve to enlarge exports in order to help pay for war materials from abroad. This effort, of course, interfered with full military mobilization. There was grave danger that Germany would win the war, and the danger came to be regarded with almost as much apprehen-

sion in the United States as in England. By the establishment of lend-lease, our government said in effect to Britain's: If you will mobilize everything to win instead of worrying about payment for what you must import, we will see that you get whatever you need from us without any detailed reckoning. Payment will be made by whatever you can contribute to our needs without endangering military success, plus your all-out war effort.

This was a bargain in the mutual interest. We were no more presenting to Britain munitions and supplies than she was presenting to us the lives of her sons or the sacrifices of her civilian population. The bargain has been scrupulously kept on both sides. One of Britain's contributions to the common cause was almost complete suppression of her export trade, at least for the duration.

At this point enters the source of irritation. American business interests, having noted the British pushing of exports during the cash-and-carry period, and being as always suspicious of trade rivals, objected to lend-lease because they feared that something we sent to Britain would be reexported. To still this agitation, the British government established a rule that nothing could be exported from Britain which was being received from the United States under lend-lease. The rule applied not only to the actual goods received, but to anything of the same kind made in England. Thus, as long as Britain received any steel, she could not export steel, even if it was made in British furnaces. The restriction seems fair enough, in view of the purpose of the bargain. It was, however, one which made the British want to cease receiving lend-lease materials the moment any surplus appeared above war necessities. Their impatience with the restriction was redoubled by the fact that, while they were forbidden to export, American businessmen were not.

In fact, war orders in the United States preempted the productive capacity for export goods to a far greater extent than was generally understood in England. But there was a widespread credence of reports, both verbal and printed, that, while Britain was concentrated on war and was excluded from foreign export markets by lend-lease, American commercial representatives were going about the world

taking orders. It looked to many not only as if we were planning to be commercial rivals, as was to be expected, but as if we were quite ready to engage in what was regarded as unfair competition.

This irritation was somewhat relieved by negotiations removing important articles from the lend-lease provisions and attempting to bring about some synchronization in reconversion of export industries in the two countries. It is impossible to overestimate, however, the sensitive response of Englishmen to any hint that the United States may be placing obstacles in the way of a revival of their export trade. The widely different significance of exports to the two countries will appear later in our discussion.

The undoubted good will and friendliness between the peoples will not of itself suffice to remove either misunderstandings or conflicts of policy which may have the most undesired results. If we are to cooperate with the British in the postwar world, we must understand with great clarity and in considerable detail both what they intend to do and why, and what we intend to do and why. We must then take infinite pains to bring into harmony the respective national policies. Drift might easily lead to disaster.

## 2

# BRITAIN'S "LIFE-OR-DEATH" PROBLEM

THE British expect to share more equitably what they have, by means of social insurance, free medical service, a great program of public housing, and full employment maintained by governmental planning. They also have resolved to raise the average level of living by producing a larger quantity and a higher quality of the goods and services to be shared. They believe they know how to do all these things, as far as management of their own economy is concerned.\* If the United Kingdom contained all or nearly all the natural resources necessary for life—as for instance the United States and Russia do—the task, they think, would be relatively simple.

This, however, is not the case. Before the war British farmers raised only about 40 per cent of the food eaten in the country (measured by money value). No cotton can be grown in the nation. Timber must be purchased abroad. Petroleum was discovered during the war, but only a small amount in relation to requirements. There is iron ore, but not enough, this and other metals and chemicals have to be imported. Coal is the only important resource of which there is a surplus, and even this is becoming more expensive to extract. No doubt Britain could be much more nearly self-contained than she is, but the cost of long strides towards self-containment would be a drastically reduced standard of living until perhaps half the present population emigrated.

Americans are accustomed to thinking of foreign trade as a means of selling goods to other countries and receiving money in exchange. This is commonly regarded as a normal and profitable type of transaction. Apparently, selling goods and receiving money is a customary way of conducting domestic business. There is, however, a hitch in the process if it is carried no further than this, and the hitch ap-

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\* For a description of these programs, see Chapters 6, 7, and 8.

pears with great clarity when the trade occurs between different countries having different monetary units. The seller never enjoys his real profit unless he uses the money received in order to buy something. In domestic trade, he customarily does so. He may buy materials and labor for more production, or he may buy new plant and equipment, or, at the very least, he may invest the money in securities. If the American producer sells to customers abroad, he cannot even receive the money in the form of dollars, which may be spent in this country, unless the foreign purchaser can get the dollars. The only ways in which foreign nations can obtain dollars are by selling goods or services to customers in the United States, or by borrowing the money here, or by buying the dollars with gold. There are strict limits to the last two ways of getting dollars. Credits from the United States will not indefinitely be extended to foreigners unless repayment is made. The supply of gold is not inexhaustible. Therefore, we arrive at the inexorable conclusion that American exporters cannot be paid in money that can be spent in this country unless at some time or other foreign exporters can sell an equal value of their wares here.

While the individual British exporter doubtless looks at foreign trade in much the same way as the American, British economists and statesmen take quite a different view. They are interested, not primarily in selling abroad to make a profit in money, but in buying abroad what the nation needs. They know that the only way in which imports can be paid for is by exports that will yield the amount of foreign currencies needed to settle the accounts for what Britain wants to buy. They are not anxious to ship anything more out of the country than they must in order to obtain the food, timber, iron, and other materials that the nation requires.

The way in which Britain bought the necessary imports before the war, and the only way in which she can do so in the long run, was by giving something of equal value in exchange. In the years 1936-38, part of what she exported, but a minor part, consisted of coal and other raw materials. A much larger share consisted of manufactured goods. (For many of these, like cotton textiles, the materials had to be imported.) All this paid for scarcely more than



half her foreign purchases. The other half was covered by "invisible" exports. Of these, the largest single item was the income on foreign investments. Over a long period, the British had sent capital abroad, foreigners were paying dividends and interest for its use, and these payments enabled the British to buy in foreign markets between one-quarter and one-fifth of what they wanted from other countries. The next largest item among the invisible exports was the payment received from foreigners who dispatched their freight in British ships. There was also the payment for insurance and banking services.

The effect of the war on Britain's ability to pay for imports has been almost catastrophic. In the days of cash and carry the nation had to sell foreign investments in order to buy in this country munitions and supplies needed by both military and civilians. Lend-lease reduced this necessity as far as the United States was concerned, but the process continued in other parts of the world. Submarine warfare diminished the tonnage of British shipping. While this shortage may before too long be made good, American shipping has more than doubled, and the prospect of postwar competition leads the British to expect a reduced shipping income. Britain has disposed of more than 1,000,000,000 pounds in foreign investments for war supplies alone.

Nor is this all. Formally, Britain has not accumulated a foreign war debt, as she did in the First World War. But she has bought large quantities of goods in India, Argentina, Egypt, the dominions, and elsewhere for which she has paid, not in the currencies of the nations in question, but by deposits of sterling to their account in Britain. Exchange control has prevented the sellers from getting the money out. They could not spend it even there, because under existing conditions there was little they could buy. These "blocked sterling balances" constitute Britain's foreign war debt. The debt amounted to about three billion pounds at the end of 1944, and may rise to four billion or more before the end of the war. In order to amortize it, Britain will have to export without getting anything currently in return. She will also have to export enough more to pay for the imports needed for her daily life.

The consequence of the loss of income on foreign investments and shipping, plus the accumulation of debts, is that Britain will have to export far more goods than before the war in order to buy abroad even as much as she did then. If she is to maintain full employment and a higher standard of living, she will have to buy more than that. The commonly quoted figure for the necessary expansion of exports is 50 per cent, but this is a minimum. It may be much larger.

E. F. Schumacher, an economist of the Institute of Statistics at Oxford, summarizes the figures. Average annual imports, in the immediate prewar years, cost 866 million pounds. They were paid for by exports, visible and invisible, divided about as follows:

	<i>Millions of Pounds</i>
Exports of goods	478
Shipping services	105
Banking, insurance, etc.	40
Income from investments	203
	<hr/> 826

This left a deficit of about 40 million pounds, which was met by a net reduction of British foreign investment, through borrowing or sale of assets. Thus the process of foreign disinvestment was begun even before the war, during the years of reduced world trade.

Of the goods exported, many were made of imported materials. These materials cost, on the average, about 80 million pounds. In order to get a net figure for exports, Schumacher deducts this figure from the total. This leaves him with net exports worth 390 millions. All the other, or invisible, items, plus the net disinvestment, also add up to about 390 millions. The export budget was thus divided about fifty-fifty between goods and services.

He estimates that after the war the invisible or service exports will have shrunk to half their prewar size, or 180 million pounds. This means that if the same net volume of imports is to be obtained, ex-

ports of goods will have to be increased from 478 to 740 millions. (Larger exports of goods would of course require larger imports of materials. Deducting the value of such materials to obtain a net figure, goods exported would have to rise from 390 to 600 million pounds, or about 50 per cent.)

The required expansion of exports is still greater if one measures it not against the prewar level but against the amount exported during the war. German conquest cut off many of Britain's largest markets. At the same time, of course, it opened opportunities for acquiring customers who formerly bought their supplies in Germany. Nevertheless, in spite of an active drive to increase sales abroad in order to pay for war materials, British exports were reduced drastically between 1938 and 1941. This is true even if exports of munitions to Allies are included. After the enactment of lend-lease permitted Britain to concentrate all her effort on prosecution of the war so far as paying for purchases in the United States was concerned, exports were reduced still more drastically. If valued at prewar prices, they stood in 1943 at only 29 per cent of the 1938 level.

How is Britain to cope with the impending lack of balance between her peacetime requirements for purchase of goods abroad and her means of paying for them? If she does not find a way of coping with it, disaster is in sight. A few are inclined to argue that since England during the war has drastically decreased her imports and at the same time has managed to produce more goods than ever, largely for the purpose of supplying her army and navy, it will be possible to get along with many fewer imports than before. The tonnage of dry-cargo imports into the United Kingdom was approximately twice as great in the prewar years as in 1944. Perhaps the postwar population could not get along with half as many goods from foreign countries as before, but might it not subsist with a reduction of, say, 30 per cent? A reply to this argument made by *The Economist* is decisive. When the wartime reduction of imports is stated in terms of money value rather than in weight, it turns out to be only about 20 per cent. Moreover, the imports excluded by deliberate government policy consist of goods that would be indispensable in a peacetime economy. One such item is timber, which would

be necessary for the building program. Another is wood pulp and paper, without which British newspapers would have to be restricted to the eight pages (or a few more) printed during the war, and the circulation of books would be severely limited. Another important item is oranges and lemons, without which a complete diet cannot be provided.

In spite of necessary limitations on the import of food during the war, British farmers have managed to produce enough under a carefully calculated government program, which includes not only the production but the distribution of food products, so that the diet of the average citizen has been more adequate from the point of view of scientific nutrition than it ever was before. This means, however, that the members of the population who formerly suffered disastrous deficiencies have been brought up to a higher standard rather than that those in the middle and upper income classes have had more and better things to eat. For instance, children and expectant or nursing mothers have been assured enough milk, but only at the cost of limiting the rest of the population to powdered milk and very little of that. Nevertheless, there is substantial support for the opinion that a revived and more efficient British agriculture can produce substantially more food than before the war. The estimate is made that it may yield half of the food eaten by the population instead of 40 per cent as previously.

An intelligent plan for doing this would not, however, retain the war pattern of production. During hostilities, the chief consideration was to conserve shipping space. This led to the growing at home of bulky products like wheat and sugar, although the economic cost was higher than if more of them had been imported. In peacetime, such a policy would aggravate the foreign trade problem rather than help to solve it, and would result in a lower standard of nutrition than might otherwise be possible. British consumers would pay more for their bread and their sweets while the nations which specialize in the production of wheat and sugar would be deprived of income necessary for the purchase of goods that could be manufactured in Britain at a lower cost in manpower.

While some British land is suitable for the growth of wheat and

other grains, and these crops will not be abandoned, agricultural planning will probably concentrate on expansion of the output of the protective foods, which are often perishable and contain needed vitamins. There is likely to be a growth of dairying and an effort to supply enough milk for everyone, without buying any abroad. This will naturally be accompanied by a somewhat larger supply of meat. Expansion will also take place in vegetables, eggs, and poultry. There will be an endeavor to improve the efficiency of agriculture by better plant and machinery and the use of more modern methods, and thus to reduce its demand on manpower relative to the total output. Reforestation plans will, in the long run, somewhat diminish the need for importing timber and wood pulp. In spite of all that may be done, however, the effect of these advances will be felt more in an improvement of the consumption levels of the British public than in any marked decline in the need for imports.

It is possible that, in the very long run, the advance of science and technology may make it possible for almost any nation to dispense with bulky or costly imports, just as the invention of a method of extracting nitrogen from the air years ago made it possible to produce fertilizer at home instead of importing it from Chile, where great natural deposits of nitrate are found. New materials are continually discovered which can be fabricated out of widely distributed resources. Thus, synthetic rubber can now be made out of coal, of which Britain has plenty. Magnesium, a metal for which many uses may be found, some of them hitherto served by steel or other metals, can be extracted from sea water. Theoretically, it is possible for chemistry and physics to discover enough about isolating and rearranging the basic components of matter so that almost anything can be made out of almost anything else. Nevertheless, this technical revolution is still in its early stages and cannot be counted upon in any calculable future to eliminate the need for Britain to buy large quantities of goods abroad. This need is not only recognized by every serious student of the subject, but has been accepted by the majority of the public. "Export or die" is a popular slogan.

How will it be possible to bring about an increase of 50 per cent or more in exports of goods? There is no assurance in the past that this

will occur automatically. Indeed, there seems to be every assurance of the contrary conclusion. British exports fell further between the peak of 1929 and the bottom of the depression in 1932 than did international trade taken as a whole or the world's industrial production. In the subsequent recovery, they rose again, but not nearly enough to make up for the previous loss. At the peak of 1937, the industrial output of the world was above the 1929 level, and international trade as a whole was almost as high as in 1929. British exports, however, aggregated only 75 per cent of their 1929 level.

The complete list of British exports includes a bewildering variety of products, almost everything that can be made for human consumption is included. Britain even sold abroad such unlikely items (for her) as grain, flour, and living animals for food. Nevertheless, the major part of these exports, if measured by value, was in 1938 represented by only fourteen classifications. These, in the order of their importance, were:

<i>Classification</i>	<i>Thousands of Pounds</i>
Machinery	57,888
Cotton yarns & manufactures	49,680
Vehicles (including locomotives, ships, and aircraft)	44,627
Iron and steel and their manufactures	41,556
Coal	37,405
Woolen and worsted yarns and their manufactures	26,814
Chemicals, drugs, dyes, and colors	22,080
Beverages and cocoa preparations	13,825
Electrical goods and apparatus	13,430
Nonferrous metals and manufactures	12,339
Miscellaneous food	12,037
Manufactures of other textile materials	10,657
Pottery, glass, abrasives	9,610
Cutlery, hardware, implements, and instruments	9,028

These classes of exports constituted 77 per cent of the total. Those who are gloomy about the prospects of British exports in the future

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\* Not inclusive of cotton, woolen, silk, and artificial silk

are usually alarmed by the fact that a number of the more important classifications in this list evinced a sharply declining tendency between the wars. For instance, the exports of cotton yarns and manufactures were almost cut in half between 1913 and 1937. Exports of coal were reduced by one-third. Exports of iron and steel and their manufactures fell by one-eighth. There was also a slight drop in exports of woolen yarns and textiles. Thus, four out of the first six items on the list have for many years been losing ground.

For at least two of these items, there is little prospect of reversing the trend. The supremacy of the British cotton textile industry was due to the fact that Britain was the first nation to install textile machinery and the factory system. More backward countries for many years relied on her for their cotton goods. As nations develop industrially, one of the first things they are able to do is to produce their own cotton yarn and cloth, especially in the cheaper grades. There has been a tremendous growth of textile manufacture in India, Japan, and many other nations. It would appear impossible for Britain to recapture this trade in competition with the cheap labor of countries with far lower standards of living, which nevertheless are capable of utilizing the same machinery.

A British Commission which recently investigated the industry in the United States reported that American cotton mills, by the use of automatic looms and long runs, achieve a far higher output per labor-hour than British mills. There is much discussion of the possibility of increasing British productive efficiency. No doubt something can be done in this direction. Nevertheless, the American mills themselves make little for export and cannot compete with countries like India and Japan in the manufacture of cloth made by such methods. The chief export demand now is for fine and varied piecegoods which are not adapted to long runs. The principal hope for expanding British cotton textile exports lies in rising standards of living throughout the world which would yield a demand for the fine goods which British skill is required to produce. But it is unlikely that any improvement of sales in this sector of the industry can make up for the export markets that have been lost.

The decline in exports of British coal is due to a number of factors

which it will be difficult to eliminate. New coal deposits have been exploited in other parts of the world. There has been an extensive substitution of other fuels like petroleum, or of hydroelectric power. There has occurred a tremendous increase in efficiency in the utilization of coal, so that even in the United States, where the need for industrial power has expanded many fold, there usually has been a potential surplus of coal overhanging the market. Finally, many British mines after years of operating have exhausted the better seams and those nearer the surface. The consequence is that they are more expensive to work. There is much discussion in this realm also of the adoption of more efficient machinery, such as is used in the United States, but the nature of the seams is such that in many mines better machinery cannot be utilized. The British coal industry has long suffered from the over-all inefficiency arising from the disorganization of a divided ownership and planless competition. Something will undoubtedly be done to provide for a better type of control and management, but the best that can be done is not likely to restore British coal exports to the level of 1913.

The drop in exports of iron and steel is not so serious and may conceivably be remedied. It is due partly to backwardness in the organization and technique of the industry, brought about by financial manipulation and monopoly control of a kind which may be removed. Nevertheless, there has been a great expansion of steel capacity in other countries and particularly in the United States during the war. Newer metals may encroach on the market for steel. The future is uncertain, and there is no good ground for hoping that any great and permanent increase can occur in British exports from this industry.

Many studies have been published in England indicating an extremely low level of output per factory worker. It is asserted, for instance, that per worker the United States produces 127 per cent more coal than the United Kingdom, four times as much iron and steel, more than four times as many cars, 179 per cent more soap, and 126 per cent more rubber tires. Building methods in Britain are said to be far less productive than those in the United States. Comparisons with prewar Germany are not so unfavorable. Britain



led Germany in efficiency of production of iron and steel and automobiles, but was somewhat behind her in coal, soap, and tires.

Those who have dealt critically with figures purporting to show the output of industry per person engaged or per labor-hour know that such figures must usually be taken with a grain of salt. The basic statistics are often difficult to obtain. Even when they are accurate, they frequently do not take sufficiently into account differences in the nature of the product or in its quality. Furthermore, statistics covering the output of whole nations are sure to be heavily weighted by differences in the makeup of production in the nations compared. Nevertheless, after making all possible allowances for the crudity of the statistical results, there is probably much room for improvement in British industrial efficiency.

From such facts pessimists are inclined to generalize that British industry is hopelessly out of date and must lose out in the struggle for world trade. The figures are employed by Englishmen whose chief interest is in the erection of protective barriers against American competition. But they are far from being the only facts. Even an inspection of the record from which they were obtained will yield other and less discouraging observations. For instance, the first and largest item in the list of principal exports—machinery—did not contract in the interwar period, but was increased by almost 50 per cent. In 1913, this item had been fourth on the list. There has been a rapid growth in exports of the relatively new industry of chemicals and drugs. Even foreign sales of vehicles increased during the period, in spite of the slump in shipbuilding and the competition of American automobiles. Exports of electrical goods and apparatus more than doubled. There was an appreciable growth in the foreign sales of pottery and glass, cutlery and hardware, and beverages and cocoa preparations.

All these gains occurred during the period when foreign trade as a whole met many reverses, a period characterized by the great depression, the difficulties created by too high a valuation of the pound, and the obstructions to international commerce arising from exchange restrictions, bilateral trade agreements, and the like. The truly remarkable gains in some of these categories were masked, in

the aggregate figures of British exports, by the colossal losses sustained in exports of cotton textiles and coal. It is quite possible to maintain that the decline of these two old industries has now approached its limit, and consequently that a mere continuation of prewar trends in the growing industries will turn up as a decisive increase in the total value of exports as compared with the immediate prewar years

In every country and in every decade, some industries grow while others decline. Newer industries are usually more progressive than older ones. This is true in England of chemicals and electrical equipment. Others which were not large enough in 1938 to appear among the first fourteen at all are growing by leaps and bounds. One is the manufacture of artificial silk. Another is the production of light metals such as magnesium and aluminum.

Much is heard in both England and America of the advantage in international trade enjoyed by goods resulting from American mass production, because of their lower unit costs. The standard example is passenger automobiles. This example is pertinent so far as it goes, but it is not a true indication of backwardness in British technology. England has never had a large enough market at home for automobiles in order to employ mass production in their manufacture to the same extent as was possible in the United States. Moreover, the kind of cars made in England did not appeal so strongly as the American type to purchasers in many other countries.

The underlying reasons are more social and political than strictly technological. In prewar England, it was assumed that automobiles were and would remain luxuries, available chiefly to those with large incomes. A heavy sales tax was therefore placed upon them, based upon the horsepower. In addition, there has been a sizable annual tax levied on anyone who owned an automobile. Finally, there have been high sales taxes on gasoline. The resulting discouragement of the use of automobiles on the part of those of medium or small means limited the size of the internal market. The taxes also led to the designing of motors of the lowest possible horsepower which are extremely economical in gasoline consumption, but are not favored in regions outside of England where there are rougher

roads, steeper hills, and longer distances. The limited market which discouraged mass production in turn kept sales prices high and thus carried on the vicious circle which restricted output. All these disadvantages might be removed by revision of the tax legislation, and this is now a subject of much discussion. It would take time for the British automobile industry to reorganize itself in order to compete more effectively with the American, but there is little doubt that ultimately it could be done if the appropriate legislation were passed. Moreover, the blurring of class lines in postwar England and the planned increase in standards of living for those in the lower income brackets are in harmony with a more widespread use of motor cars.

Stories may be heard in England of the technical backwardness and lack of enterprise of businessmen, particularly in the older industries where establishments remain in the hands of the same family for generations, and where it is the custom of members of the owning family to retire from business as soon as they have moderately satisfactory incomes, in order either to live the life of country gentlemen or to enter professions which have a higher social prestige, such as the law. It is also asserted that class distinctions have hampered efficient management in other respects. Many self-made businessmen do not like to employ trained technicians, because the latter are usually university graduates, and university graduates customarily have enjoyed a higher social status. In America such a barrier may have existed in the past, but if so it was gradually removed by time, because almost any successful businessman will send his sons to college. In England, however, this has not been the universal custom. Insofar as these charges are true, the atmosphere of postwar English society should go far to remove them. Technical and higher education will be greatly extended and class lines will not be so rigid.

There are, moreover, many English businessmen who themselves have received good technical training and who are extremely enterprising and aggressive. This is particularly true in the engineering industries and in those which have built up extensive foreign contacts. The success story of the man who starts with little or nothing and

makes a fortune by the production of goods wanted by others is by no means lacking in the British Isles. Some great English manufacturing concerns, such as Cadbury's or Rowntree's, are noted for their progressive management and their daring sales policies. If all the facts were known, it might easily turn out that there is as large a proportion of business conservatism and poor management in the United States as in England. The commonly accepted stereotypes of the typical American as a hard-driving, money-seeking, ingenious leader of industry and of the typical Englishman as a leisurely country gentleman are far too simple.

There is a legend in the United States that all good inventions are made by Americans and that our technical men are the best in the world. It simply is not true. At the beginning of the war some British airplane motors were more advanced than ours, we learned how to reproduce them—with improvements, of course—in large quantity. It was an Englishman who pioneered in radar. They were ahead of us in television, and are at this moment in a better position to export it. Jet propulsion did not originate on this side of the Atlantic. The chemical and other new industries are not behind ours either in technique or in cost of production. I have even heard it confidently predicted that the vexed British coal problem will sink into insignificance within a quarter-century because of the rapid advance in discovering how to use atomic energy.

Nor should we lay too much stress on mass production. The British are just as capable of employing it as we—when the demand for uniform products is large enough to make it pay. But in some important markets it is not a factor. In the manufacture of machine tools and machinery, for instance, skill, ingenuity, and the store of experience are the essential qualities, and these the British workers possess in superlative degree. Civil aviation after the war will not absorb planes and their motors by the hundred thousand; here quality and adaptability to special purposes will count more. The same is true of power plants of all kinds. British labor has always led in producing high-quality consumers' goods in infinite variety—Scotch, woollens, cotton piecegoods, pottery, chocolates, leather goods, glass, cutlery, paper. (The lenses for Leica cameras were

made in England.) If expanding industry and full employment rule in the postwar world, the British can share in the export of equipment for ships, railroads, power stations, and factories, while more leisure and higher purchasing power will focus attention on the amenities of life and hence on quality goods.

PEP (Political and Economic Planning), looking for the English town most dependent on exports, found that it was Stratford-on-Avon, which manufactures little. We should not forget tourist expenditures as an element in invisible exports. Older regions, such as Italy, Switzerland, New England, not to mention newer ones like Florida and California, have found them a powerful stimulus. Will not every American who can possibly do so want to travel when war restrictions are lifted?

This brief review of the British task in obtaining the imports necessary to the life of the nation does not prove that success will be assured. There is no question whatever that the problem is extremely difficult, and that a solution of it is basic to all other considerations. Unless enough food can be obtained, the people will starve. Unless timber can be imported, houses cannot be built. Those engaged in the great cotton textile industry will have no employment unless it is possible to purchase abroad the raw cotton to spin and weave. The only way in which purchasing power for these and other necessities can be derived in the long run is by the exportation of a sufficient value of goods and services. The quantity of goods alone sold abroad must probably be at least half again as large as before the war, and must be four times as great as exports during the last years of war. Nothing can banish facts like these.

All that an examination of the existing situation indicates is that success is not out of the question. The pessimists who believe that Britain is done for as a great and populous nation are no more justified than were the pessimists who thought that Britain was sure to be conquered by the superior might of German arms when Hitler's legions stood on the Channel and his bombers were ravaging London. If British leaders and people muster the same stubborn determination, the same ingenuity and steadiness, the same willing-

ness to do whatever must be done, no matter how unfamiliar or how uncomfortable it is, they have the opportunity to win this battle too.

Many of them know this. They realize that, while the opportunity exists, the outcome cannot be left to happy chance. No automatic process of economic *laissez faire* can be relied upon in this struggle. It will demand keen foresight and careful planning, on which may be based an integrated national policy, carried through with skill and resolution. Any domestic interest which stands in the way of this policy must be subordinated to the public need. By the same token, any foreign interest or any policy by the United States or any other nation which, even without intent, hampers British survival in the effort to build foreign trade will be opposed with bitter resolution. Americans in particular, who are accustomed to regarding international trade rivalries as contests for profits, should understand that to the British they will now be a test of the national life. Britons will stand on the beaches and fight, if necessary, for enough to eat.

# 3

## AND HOW IT MAY BE SOLVED

IF we assume that basic conditions do not make it impossible for Britain to export enough so that she can pay for the goods she needs, exactly how is this possibility to be realized? What is the nature of the planning by which the problem is to be attacked?

At the very beginning, it will be well to exclude measures sometimes suggested in the United States, to which the British will not resort if they possibly can help it. The plight of British export trade has not escaped the attention of students in this country. It is believed by many that loans from us would provide a welcome means of bridging any gap between the foreign purchases Britain will have to make and the means that will be available to pay for them. Some favor offering such loans. Some are wary lest, through the International Monetary Fund of the Bretton Woods agreement, the United Kingdom may obtain a right to the loans she may need without the conditions that American bankers might like to impose. All such considerations rest on a serious misconception of the temper of the British. The British are well aware that one of the chief sources of their difficulty is the extent to which their foreign indebtedness has already been increased by the war. The last thing they want is to increase their borrowings by a single penny; they want to get out of debt. They may be compelled to borrow, but they would rather begin the long climb out of debt as soon as the war is over.

Other Americans, in a spirit of far-sighted generosity, have suggested that this country make a gift to set the British economy on its feet again. This suggestion is also unwelcome. To accept a gift for this purpose would be to acknowledge a dependency which the British do not feel. They know that their whole future might be compromised by a habit of walking with crutches. They are firmly resolved to stand on their own feet by balancing imports with exports, and want to do so at the earliest possible moment. Anyone who supposes that the British wanted to continue lend-lease beyond

the period of war necessity forgets the conditions under which lend-lease aid was extended by the United States. Britain could not export any goods of a kind which she received under the Lend-Lease Agreement. The same inhibitions did not apply to exports from the United States. Britain was fretting under this restriction because of the fear that it would exclude British goods from foreign markets while American exporters were establishing themselves there. The end of necessity for lend-lease shipments therefore could not come too soon to please those who are guiding Britain's foreign trade policies.

British planning begins by dividing the near future into two periods: first, a transition period, and second, a period in which peacetime economy on a full and balanced basis may be achieved. The first question asked about the transition period is whether it will be characterized by a sufficient demand for British exports. The answer is a strong affirmative. The whole world is suffering from an acute scarcity of goods of almost every description. The European nations devastated by war will at the beginning need all the daily necessities of life. England can make no net contributions of food, but she can export textiles, clothing, fuel, shipping services, and goods of many other kinds. These nations will also need to rebuild their factories and transportation systems as rapidly as possible. They will require rails, locomotives, structural steel, power plants, electrical equipment, machinery, and other capital goods of infinite variety. Almost all of these things Britain is well equipped to produce. There is every prospect that for several years demand will be greater than supply.

Nations in other continents, which have not been ravaged by German armies, have stocks of food and other raw materials of which they customarily produce an export surplus, but have suffered severely from inability to import the manufactured goods formerly obtained from the great industrial nations. Their customary peacetime purchases of such goods from Europe, Britain, the United States, and Japan have been almost completely cut off during the years of war. They not only have been unable to obtain consumers' goods like automobiles, typewriters, and textiles, but also



have been unable to buy the machinery with which to produce such goods. The machinery they already possess has suffered heavy depreciation and obsolescence. Furthermore, almost all such outlying countries have ambitious plans for expanding their industrial production and raising their standards of living. Their demands for imports will be almost as insistent as those of the war-ravaged regions. The moment the sluices closed by war controls are reopened, purchases from their normal sources of supply will pour through like a raging torrent.

The next question asked is whether competition from other nations in selling the exports demanded is likely to deprive Britain of a full share in this active market. The answer to this question is an equally firm No. Two of Britain's main prewar competitors will be out of commission for some time to come—namely, Germany and Japan. Though France and Italy did not occupy so prominent a place in exports of manufactures, they too will be hampered by a temporary loss of productive capacity. Only the United States remains. This country has greatly increased its capital equipment during the war and is sure to be a formidable competitor in export markets. Nevertheless, it suffers a comparative disadvantage in some types of goods, is farther geographically from some of the main regions of demand, and probably will not export so much that British industry cannot find buyers for everything it is able to produce in response to foreign requirements.

Assuming the need of other peoples for goods that Britain can produce, how are these goods to be paid for? Mere need is of no economic importance, unless it can be translated into effective demand. Will the necessary funds be available? The answer to this third question is on the whole affirmative. There is little doubt that insofar as grants are necessary for immediate relief, the money will be forthcoming. UNRRA is already set up as an international relief agency, and its financial resources are provided for. Relief requirements proper are, however, likely to be short in duration and will account for only a small percentage of the total demand. But funds are also in sight to pay for reconstruction. France and the Netherlands, for instance, though momentarily poor in physical equip-

ment, are financially in a good position. They both have ample gold reserves, and credits have already been arranged both with Britain and the United States, to begin the task of reconstruction. Russia has gold resources. Gold is still acceptable in international payments, though it is rejected as a standard for money. There is a strong prospect that the International Bank for Reconstruction and Development will make or guarantee any loans necessary to supplement the financial resources of war-ravaged nations. If this agency should not be established, something else is almost certain to take its place. There is no question of the purchasing power of non-European nations like Argentina, Brazil, or India. As a matter of fact, they have accumulated huge balances of dollars and pounds which they have been unable to spend during the war.

Though there is no doubt of the financial ability of the rest of the world to buy from Britain, there is much concern about Britain's ability to obtain needed goods in exchange. After all, she does not want to export in order to earn money, but rather in order to buy what she needs. Take the case of trade with Russia, for example. Russia's credit is good and individual British manufacturers would have no hesitation in selling her the enormous amounts of equipment she is likely to want, nor would British banks have any hesitation in financing such transactions. Nevertheless, those responsible for British trade policy see no advantage in shipping the products of British labor to the Soviet Union, unless they can obtain in return something that British workers can eat or wear or live in. A diet of gold or promises to pay is not nourishing. Specifically, Britain imported from Russia before the war large quantities of timber and hides. She could use both to great advantage in her domestic reconstruction program, but there is doubt how soon Russia can resume exports of this nature.

Such problems are not necessarily insoluble, as long as the possibilities of multilateral exchange remain. Britain may be able to take her immediate payment in Russian gold and use that gold to buy what she needs from other sources. The same may hold true of reconstruction trade in other European countries. The process, however, is not indefinitely extensible. However much money or its

equivalent Britain may be able to acquire from selling abroad, she must be able to spend it somewhere for what she wishes to consume or it will be of no use.

Another difficulty exists in the case of countries like Argentina, Egypt, or India, which have accumulated large balances of sterling in London received in payment for goods sold to Britain during the war. If exchange restrictions were to be abolished with the coming of peace, these countries could use their hoards of British currency in order to buy what they wanted from Britain, without sending any goods in exchange, until their war gains were exhausted. Or they might exchange the pounds for dollars and buy from the United States. The purchasing power resulting from the blocked sterling balances is of no use whatever in solving Britain's import problem. England needs Argentine beef and grain and Egyptian cotton, and would like to employ her resources to pay for such goods instead of merely to settle past debts.

The problem of dealing with the blocked sterling balances therefore emerges as one of primary importance. Some agreement limiting their use must obviously be made between Britain and her creditors. Britain, as a large customer of the countries in question, in peace as well as in war, is in an advantageous position to make such an agreement. Whereas Argentina, Egypt, or India might profit as nations by obtaining needed goods from England without giving anything currently in exchange, the growers of Argentine beef or Egyptian cotton would not look upon such an arrangement with favor. They need to sell their products year by year, just as Britain needs to buy them. It is therefore probable that the sterling balances representing war debts to these countries will be funded as long-term obligations, so that an arrangement for interest and amortization may reduce the problem of payment to manageable proportions. There are, of course, other possible means of achieving the same result.

Some British writers also suggest that agreements be negotiated limiting the use of these funds to purchases in England instead of allowing them to be exchanged for dollars or currencies of other countries, which may be spent elsewhere. It is difficult to see the

force of this suggestion, since anyone who exchanged other currencies for the sterling in question would have to purchase English goods in order to realize on his bargain. The amount of the total claims against British production would neither be increased nor be decreased by the absence of any restriction of this kind.

The next question is concerned with the possible speed of reconversion from war production to civilian goods. Can British plants and labor be turned back quickly enough to take advantage of the foreign demand which is foreseen? The question is one of great importance in view of the fact that British productive capacity was probably more completely mobilized for war purposes than that of any other nation, with the possible exception of Germany. There is, nevertheless, little concern about the ability to remobilize promptly for peace. A considerable percentage of the war industries can turn to the output of goods needed for relief and reconstruction without any long delay in reequipment or retooling. This is true, for instance, of industries supplying nondurable or semidurable consumers' goods such as textiles and clothing, and of industries supplying many capital goods like coal or iron and steel. Even locomotives and motor trucks were demanded in large quantities for war purposes. It probably will require less time to complete the technical processes necessary for the shift from war to peace than it did to change from peace to war. In this respect, the relative backwardness of mass-production processes in Britain is an advantage rather than a disadvantage. It is much easier to reset ordinary tools and machines than it is to produce new special-purpose machinery and reequip whole production lines.

The chief problem in reconversion will probably be found not in making ready the necessary physical equipment, but in the redistribution of labor. But in this respect, also, Britain has an advantage. Before the war she had a more highly developed system of labor exchanges than most other nations. The very extent of her wartime labor controls, which will not be abandoned at least until reconversion is well along, will enable her to guide the redistribution of workers to the places where they are most needed. Demobilization of the armed forces will be as rapid as possible and should not be

delayed because of any need of supplying jobs to men. The urgency will rather be to find men for jobs. A moderate amount of transitional unemployment is anticipated, but most experts believe that it will quickly be absorbed.

No great difficulty is thus anticipated in the existence of a foreign demand for British goods during the transitional period, in the means of financing these exports, or in the ability to produce them. The real trouble is looked for in quite a different direction. What the British economists fear during this period is rather that the internal demand for British products will be so great that there may not be enough goods left for the export market. The domestic population has long been deprived of satisfactions beyond those barely necessary to sustain health and the ability to work. At the same time, it has enjoyed a large income from full employment and has laid aside its surplus in vast amounts of savings. The chances are that full employment will continue after the war and that the potential purchasing power of individual consumers will be relatively high. They will want more and better things to eat. They will need to replace clothing which has been worn threadbare. They will rush to buy ordinary household necessities like sheets and towels, which have been growing scarcer and scarcer. They will want new furniture to replace that which has been broken, as well as many of the less utilitarian articles like automobiles and radios, which have been unobtainable for six years.

In addition, the government will enter the market to supply a huge aggregation of consumers' wants. It will have a great rebuilding and housing program and will demand many new teachers and doctors. At the same time, it will decrease the supply of labor by sending more people to school and providing more retirement pensions.

The consequence of the immense backlog of internal wants, reinforced by ample purchasing power in the hands of consumers and of their governmental agencies, will for some time be an effective demand for goods greatly in excess of supply. The natural result, if nothing is done to control the process, will be an immensely profitable home market for British manufacturers, stimulated both by

large volume and by high prices. These consumers will also demand a larger quantity of imports than ever before. In addition to necessities, they will want luxuries or semiluxuries of many kinds, such as tropical fruit. If housing is to be built twice as rapidly as before the war, there will be a need for importing twice as much timber.

Americans often picture English businessmen as shrewd and rapacious exporters prowling about the world to see what markets they can wrest from us. Some of them are like that, but in London most of them are seen as people out of touch with foreign buyers and demands, who will prefer to sell in a booming home market rather than to take the trouble and risk of seeking customers beyond the seas. Vital though foreign trade is to Britain, her exports of goods in 1938 did not amount to more than 12 or 13 per cent of her national income. A correspondingly small amount of the available personnel and effort was devoted to foreign trade, and skill in exploiting it was not shared by many businessmen. Historically, exports from Britain arose in the main, not because they were promoted either by individual producers or as a national policy, but rather because England was the oldest manufacturing nation and customers were attracted by the desire for what she could produce.

It is obvious to all who have given the subject any thought that measures will have to be taken to restrict internal demand both for domestic goods and for imports in order to maintain the necessary foreign-trade balance. Other measures will be necessary to induce manufacturers to sell abroad goods that they might otherwise sell at home. Capital and equipment will have to be directed into export industries. In addition to all this, it is of the utmost importance to increase the production of goods needed for both domestic and foreign markets so that the limited supply of labor may produce the greatest possible amount of wealth. Domestic consumers must in any case endure some sacrifice of potential satisfactions if their welfare is to be served at all. But it will be impossible to ask them to sacrifice so much that there will be a political rebellion which would disorganize the entire British economy.

Measures of many kinds are suggested to accomplish the ends in view. The existence of war controls provides a number of the

requisite measures ready made. It will, for instance, be possible to limit consumers' demands by continuance of rationing. It will also be possible to avoid an inflationary price rise which would attract too much of the producers' resources to the domestic market through the profit incentive. Existing price control will be available for this purpose. Exchange control and other means of governing the kinds and quantities of imports will have to be continued. It will be explained in a later chapter how the government's power to lease war factories, build new plants, determine priorities in the use of materials, and extend financial aid will be employed to encourage the growth of production in the Development Areas. The same devices may and probably will be used to favor the growth of industries serving export markets. In addition to all this, an effort will be made to make the way easier for exporters. The Department of Overseas Trade, established after the first World War, is making intensive studies of foreign markets and is consulting with British manufacturers about their export problems. Credit facilities not already available for carrying on such trade will be provided. Methods of marketing abroad which will facilitate the task for small and medium-sized concerns are being explored.

If measures like these are to be used intelligently, it is clear that those who apply the several controls and the aids to industry cannot go their own ways without coordination about a well-designed program. There must be some means of judging what imports are to be allowed and what imports must be restricted. While the demands of the consumers in retail markets must be controlled, they cannot be held at too low a level. The same logic holds for every other item in a possible program. The situation will resemble the problem of the war economy in every respect except one—that is, the objective in view. There will be a shortage of labor, of productive facilities, and of goods, in relation to the total demand.

The problem will be to adjust the supply to the most essential uses. In order to do this, there must be something corresponding to an over-all production program. Planning must govern, in one way or another, almost the entire national economy. In war, the production program is dictated by military necessities. The army and navy

need certain weapons and ammunition. They need certain amounts of food, clothing, and supplies. Certain amounts of necessities must be allotted to civilian use. All these things must be translated into the employment of shipping and other transport and into production schedules for individual industries. How is a similar production program for peace to be set up?

British economists and planners are already busy trying to design working models as a basis of postwar planning. One method suggested is to center attention on the national income and its distribution among the various essential uses. It is known approximately how much was produced in a prewar year and how this product, in terms of its money value, was divided among major items like consumers' expenditures, investments in new capital, and governmental expenses. It is possible to estimate how large the labor force will be after the war, how greatly its productive power will have grown, and hence, how large the national income will be. It is possible also to estimate how much will be required for repairing war damage and providing new capital equipment, how much must be spent on the armed forces and other governmental functions, and how much will be left to satisfy the daily demands of consumers. Within this framework, the export-import balance may be worked out and guides for rationing and other controls may be developed.

Such estimates must be extremely sketchy at the beginning, and are valuable more as indications of the way in which the problem may be attacked than as a definite program governing the allocation of the nation's resources and productive power. Even after the utmost possible refinement, they will remain tentative and must be altered as experience demonstrates flaws and reveals new needs. Planning of this kind is not like an architect's blueprint in which every detail is specified, and which is followed as exactly as possible while the building is under construction. It is not a rigid advance determination of what is to be done. Rather it is a trial formulation to be used as a rough guide in the determination of policies, and one to be altered continually as experience is substituted for forecast. But in all these respects, it is not essentially different from the economic planning incidental to war, at which the British have long



and reasonably successful training. No one in 1939 could have predicted the exact shape of the war economy in 1945, and the production schedules laid down at that time bore little resemblance to those eventually in effect. Nevertheless, this uncertainty did not deter the formulation of programs and the continuous regulation of the national economy in accordance with the requirements of advance planning. In peace as in war, it will be necessary to visualize the economy as an integrated whole and to go to work at it in a coordinated manner, in spite of the knowledge that plans must change as the future unfolds and that it is impossible at the beginning to foresee all subsequent changes which the actual situation will bring about.

It may be interesting to review briefly one trial budget of this sort for the British national economy.\* This estimate starts with the figures of the national income as it stood in 1938—the last prewar year. In that year, the total national income was estimated at 4,604,000,000 pounds. It was made up of the following principal components: the output of goods and services involving the use of wage labor was valued at 3,814,000,000 pounds; other home-produced output was valued at 510,000,000 pounds; pay and maintenance of the armed forces was 80,000,000 pounds; and net income from foreign investments was 200,000,000 pounds. The total of these four categories represents the sum of the incomes actually received by employees and all other persons, for the current output of goods and services.

In order to estimate similar figures for a postwar year, it is necessary to make the most reasonable assumptions about probable changes in these items. First, let us consider the output of goods produced by wage labor. It is assumed that full employment will exist. The number killed and permanently disabled in war will just about equal the normal growth of the working population, and so there will be no net change on either of these accounts. Allowances are made for temporary war disablement, leave granted to men demobilized from the armed services, the increase in the numbers of

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\* "The Framework of a Four-Year Plan," *Planning* No 235, London, PEP (Political and Economic Planning), 1945.

these services above 1938, and the number of boys and girls who will be withdrawn from work on account of the raising of the school-leaving age to fifteen. Against these losses is set an estimate of the number of women employed for the first time during the war who will probably wish to remain in industry. Finally, a deduction is made for frictional employment incidental to demobilization. The conclusions are that the industrial working force will be 16,100,000 in 1946, 16,400,000 in 1947, 17,100,000 in 1948, and 17,400,000 in 1949. The further assumptions are made that the average length of the working day will be the same as in 1938 and that the production of the workers per man-hour will have increased on the average by 1.5 per cent annually. The net result of these calculations indicates a total output for 1945 which is 95,000,000 pounds less than in 1938. In 1946 the total will be 90,000,000 pounds more than in 1938, and then it will rise rapidly until in 1948 it reaches 900,000,000 pounds more than the last prewar year. These figures all take no account of the increase in prices during the war.

Similar corrections based on reasonable assumptions are made for the change in other home-produced output, the pay of the armed forces, and the loss in net income from foreign investments. A correction is then made for the 45 per cent increase in prices which has occurred, and in which it is assumed there will be no change. On this basis the postwar national income would be as follows:

<i>Millions of Pounds</i>	
1945-46	8,180
1946-47	8,145
1947-48	8,285
1948-49	8,420

Having arrived at a figure for the total income which will be available, it is then possible to suggest how it ought to be allotted among the various important uses. Of primary necessity is the repair of war damage, slum clearance, housing, and the new investment in industry that will be required to enlarge its output and increase its efficiency. There will also need to be heavy expenditures on rail-

roads, roads, and shipping as well as on the development of hydro-electric power and rural electrification. Estimates are made, therefore, for a considerable increase in capital investment, by both government and private agencies. This increase, however, is not set so high that it will prevent any improvement of the standards of consumption enforced on individuals by the war. The estimates allow for an increase of 10 per cent in consumption in the first post-European-war year and increases in the subsequent three years of 20 per cent, 25 per cent, and 30 per cent respectively. All these increases are based on 1943. It is assumed that imports will exceed exports, and hence that there will be a net deficit in foreign payments. Expenditure by government on the armed forces and other necessary functions is of course accounted for. Putting together these figures, we arrive at an allocation of expenditures out of the expected national income which looks like this:

<i>Expenditures</i>	<i>Millions of Pounds</i>			
	1946	1947	1948	1949
Consumers' goods and services	4,790	5,220	5,450	5,655
Private and public investment	240	1,200	1,485	1,375
Public expenditure on other goods and services	3,450	1,950	1,500	1,500
Foreign balance	-300	-225	-150	-110
Net national expenditure at current prices	8,180	8,145	8,285	8,420

On the basis of an analysis of this kind, it is possible to suggest more detailed allocations. For instance, consumers' expenditures may be broken down and estimates made of the productive resources necessary to satisfy their several demands. It is possible to allocate the amounts intended for the various kinds of capital expenditure, and to work out in more detail the amount of imports and exports which must be available for the maintenance of a trade balance. Sketchy though these large aggregate figures are, they do illuminate the nature of the problem and indicate what are the alternative choices. For instance, if consumers are to have larger satisfactions than would be indicated by such a table, there must either be a smaller amount devoted to rebuilding and new capital

equipment or there must be a larger total national income. If it turns out that the national income is smaller than the estimate, cuts must be made in one or more of the various subdivisions of total expenditure.

Other economists might make different assumptions and different calculations, but whatever the figures chosen, the nature of the problem remains the same. There must be an internal equilibrium in the uses to which a national income of any size is put. In Britain particularly, the working out of this equilibrium must pay special attention to the subject of this chapter, that is, the maintenance of a balance between exports and imports, which will provide for sufficiently large imports to meet the needs of British consumption, and exports that are not so large as to drain out of the country the goods which will be required by any given level of British expenditure.

The figures in the preceding pages, however rough and conjectural they may be, illuminate one conclusion with great clarity. There is no possibility of constructing the kind of nation the British expect to build at home, and at the same time acquiring the necessary imports on the basis of a balance in foreign trade, without conscious planning of the national economy as a whole. The housing program, the satisfaction of consumers' wants for perishable goods, the maintenance of full employment, the demands of a full-employment income for imports, and the requirements of a sufficiently large export program for labor and productive equipment, will all jostle and push one another like a crowd trying to get into a theater in which there is not enough room for all. The outside limiting factor is the total productive capacity of the British economy. Order must be maintained by the use of priorities and allocations.

To rely entirely upon a free interplay of demand, supply, and price to provide automatic regulation in the markets of a private enterprise economy would be to commit the nation to almost certain disaster. Such a policy might in the long run achieve some sort of equilibrium, but only at the cost of most of the objectives on which British hearts are set. It would, for instance, be quite possible to achieve a balance between exports and imports at a level so low

as to involve starvation and unemployment for a large section of the population, or it might be possible to arrive at reasonably full employment at the cost of retaining and enlarging the slums, and an extremely low level of consumption by the wage earners. Laissez faire is always tending toward equilibrium of some sort, but the terms of equilibrium and the process of getting there are frequently not compatible with desirable social objectives. The only way to achieve an equilibrium which will devote the national productive resources to the uses desired by a majority of the population, in the order of preference of those desires, is to plan in advance the objectives and the means of achieving them.

It is estimated that the transition period may last from four to six years. What about the foreign trade problem when it comes to an end? By that time important changes will have taken place in the whole situation. The foreign demand for goods needed for relief and reconstruction will presumably have fallen to negligible proportions. Other industrial nations will be reviving as competitors for exports. The backlogs of demand, both domestic and foreign, will presumably have been taken care of. The world must settle down to a system of trade and of payment therefor which is much less affected by war emergencies, and the economy must be expected to perpetuate itself on a sounder basis if the welfare of the peoples is to be served. Within Britain itself, the war controls made possible by the existence of scarcities will have lost much of their effectiveness, and many of them may have been abandoned. Then will come the real test of Britain's ability to sell enough abroad so that she can continue to buy what the nation must have.

If the ideas of the more far-sighted British leaders prevail, the intervening period will have been utilized to lay the soundest possible foundation for holding and expanding export markets in this longer future. Export industries will have been made more efficient by better organization and by equipment with the most advanced technical processes. Widespread market research will have been conducted, and foreign commercial contacts will have been improved. The industries whose products are likely to be demanded in greater volume in the future will have had special attention. Costs

of production will have been reduced by higher productivity per man-hour, while maintaining a relatively high wage level. Exchange rates for British currency will have been so fixed that the pound is not overvalued, as it was after the last war, and British exports will suffer no competitive disadvantage on this account.

There is much discussion of the possible use of new instrumentalities for maintaining foreign trade even in this period. In view of the absolute necessity for maintaining it, many Englishmen are not willing to rely solely on the chance of success in a competitive export market. The prowess of American industry is so highly regarded in Britain that its competitive potentialities in foreign trade are, to say the least, not underestimated.

One of the special measures most discussed as a means of eliminating the risks of the market is that of bulk buying by governmental agencies (already employed during war), possibly accompanied by some form of barter agreement. The government, for instance, would know in advance how much wheat or beef it was going to be necessary to import. It would go to Argentina and other countries producing such commodities and offer contracts for purchase of the required amounts, at specified prices. This would stabilize the factors of demand and price for the foreign producers in question, and would give them assurance of an equivalent amount of purchasing power for British products. The agreement might further specify in general how this purchasing power was to be utilized. Thus, Britain would be assured of the goods she needed, and the foreign producers would be assured of payment by British goods. No uncertainties of fluctuating prices or of cut-throat competition would interfere with the legitimate human satisfactions on both sides. The same kind of process could be utilized in the purchase of any kind of raw materials which can be graded and standardized.

Opponents of such measures argue that they are discriminatory against exporters of other countries and will invite retaliation. Bulk selling, too, is not easily adaptable to the miscellaneous and infinitely varied kinds of goods which Britain is equipped to make. Advance purchases of large quantities are likely to result in a higher

average price paid for the materials in question than would a large number of small purchases made by keen traders and timed to take advantage of the market. Moreover, this sort of interference with the free play of trade restricted the total volume of foreign commerce before the war and would be likely to have the same effect after it.

Nothing is more essential to Britain's interests than that the total of world trade be increased. On this point, all British students of the foreign-trade problem are agreed. They expect to be well prepared to maintain exports, as far as the internal economy is concerned. But the demand for these exports will ultimately depend on a healthy and expanding world economy. No matter what the conditions of competition may be and no matter what trading methods may be employed, Britain would have an extremely difficult task in achieving at least 50 per cent more exports of goods than before the war if the total of world trade were to revert to that low level. If, on the other hand, the total of world trade expands by 50 per cent or more, the demand for British goods would naturally rise with it, and the problem would probably be solved, even without any special preparation.

In assessing the chance of survival in the long future, the British therefore concentrate their attention on the factors that determine the volume of world trade as a whole. For the desired expansion other nations must assume as large a responsibility as theirs. At this point the policies of the United States enter the discussion.

## WHY BRITAIN FEARS AMERICA

BRITAIN and the United States are the two greatest industrial nations in the world. Together, they dominate international trade. The Soviet Union has also built up an important industrial system, but its economy is so nearly self-contained that its exports and imports have never had nearly so much influence on economic conditions in other nations as have those of the two English-speaking democracies. Even before the war, the foreign trade of the United States and the United Kingdom combined accounted for about one-quarter of all the foreign commerce of the globe. For some years after the war, their chief industrial rivals—Germany and Japan—will not be able to recover their former position. If there is to be bitter competition for exports of manufactured goods, Britain and the United States will be the chief competitors. Indeed, they will be almost the only ones of any importance. If world trade as a whole is to be expanded, most of the initiative must come from them. If world trade stagnates or contracts, the chief cause of the inactivity will arise from the policies they adopt.

Americans pride themselves on the achievements of their industry and the high standards of living which prevail in this country, under prosperous conditions. They are conscious of the enormous output recently achieved for war purposes. But it is a little difficult for the American at home to understand how large his nation looms when it is seen from outside. In military and naval power, it has come close to being an arbiter of the world's destiny. This power, however, was not a consequence of the mere size of its armed forces. The Soviet Union and Germany both put more soldiers into the field. American military power would not have been nearly so great if it had not been for the highly developed capacity of this country for mechanical production. We begin with vast and varied stores of natural resources. In this respect, Britain is infinitely poorer. Out of these, the population has erected a far greater manufacturing



capacity than is possessed by any other nation. The development of machinery and technique is such that our output per labor-hour is on the average much higher than that of any other country. The purchasing power of our domestic market is the largest in the world. Our population is three times the size of Britain's, and its average income per capita is much higher. We have accumulated great stores of financial capital and have for so many years been the final destination of so much of the world's gold that we have had to bury it in the ground because we did not know what else to do with it.

A few figures may illuminate the preponderant weight of the United States in the economy of the world. During the years 1925 to 1929, the net value of industrial production in this country was 46 per cent of that of all the nations. It is indicated by rough estimates that in 1929 the national income in the United States was equal to that of twenty-three other countries combined, including Great Britain, Germany and France. This comparison is in terms of dollars rather than of real goods and services, and would have to be corrected for relatively high prices in this country if one were measuring the material satisfactions available to the inhabitants of the several nations. Nevertheless, it emphasizes the dominating importance of American purchasing power.

Calculations by the United States Department of Agriculture for the years 1927 and 1928 show that this country's consumption of nine principal raw materials and foodstuffs was 39 per cent of the total of the fifteen most important commercial nations. Even the exports of the United States, though they were not nearly so large relative to our national income as those of several other nations, accounted for 15.6 per cent of the total exports of the world in 1929. We do not think of ourselves as being dependent upon foreign imports, yet in that year we bought 12.2 per cent of the world's imports and were second as an importing nation only to Great Britain. As importers of raw materials, we were far in the lead, buying as much as the United Kingdom, France, Germany, Japan, and Canada combined.

It is traditional in the United States for American producers to fear British competition in both home and foreign markets. For

some reason, the British businessman is expected to get the better of every bargain. If the producers in a country with such great achievements and so many natural advantages as the United States feel this way about British competitors, how much more reason is there for British businessmen to fear American competition? Conscious of their own extraordinary difficulties, and looking across the ocean at the Western giant, many of them are inclined to despair of survival in a postwar competitive struggle. Certainly a large percentage of British industrialists would like, if it were possible, to avoid entering such a race at all by shutting out American competition. A large proportion of the public is affected by their opinions.

The leaders of British economic thinking, however, who are influential in shaping governmental policy, have a more sophisticated view. They would share the fear of American competition if world markets were to be small or shrinking, but they have no objection whatever to an expansion of American exports, provided the inhabitants of the United States are willing to take an equal value of goods and services in exchange, either at the time or subsequently. An expansion of exports means an expansion of imports too, as long as our foreign trade is balanced. Though the foreign commerce of the United States is small relative to its total income and production, this country was even before the war one of the two most important markets for the exports of other nations. If, after the war, our foreign trade grows and is balanced, any conceivable increase of our exports will mean that we buy as much more than formerly from foreign producers.

In that case we shall buy more from English manufacturers themselves. We shall also buy more from other countries in Europe and from Latin America, Asia, and Africa. The markets for British exports in all these regions will thus increase. Indeed, one of the chief conditions of expanding economic activity throughout the world is that both the United States and Britain should buy more from it. And an expanding economy will provide the essential condition for the necessary increase of British exports. The British economists do not expect us to buy without selling, any more than they expect Britain to do so. They know that such a practice could not continue

for long. As long as trade is active, they are perfectly willing to run the risks of the marketplace and to negotiate with us in a friendly spirit about controls where controls are thought desirable.

The British for their part are eager to buy all they can. They fear, however, that Americans are not. For many years in the past, we have tried to export without accepting payment for all we sell. The dread that we shall continue this endeavor haunts the British leaders. Before the First World War, when the United States was a debtor nation, it was a normal procedure for the country to export more goods and services than were imported. In those circumstances, a surplus of exports constituted a payment of interest and principal abroad. Now that we no longer have to pay any balance of debt charges to foreigners, we can maintain a true export surplus indefinitely only by giving our goods and services away. That means that we increase the supply of goods in international markets without correspondingly increasing the demand. In this way we can spoil Britain's export market. This is unfair competition of much the same kind that is practiced within a country by a great private monopoly when it puts the small fry out of business by selling below its costs.

How do we give away goods or services abroad, in the ordinary course of events? There are many ways, some obvious, some subtle. We can do it by governmental subsidies of shipping or of exports of wheat and cotton. We can do it by financing our exports with loans, when the country to which we lend cannot produce a surplus for export large enough so that the loans can be repaid, or when our tariffs are so high as to shut out what it does produce. We can do it by making presents of government property to export industries—as in the disposal of war plants or equipment at uneconomically low prices. All of these methods we have used and seem likely to use again.

Why should we want to give goods away—except for relief purposes? It may occur without any conscious intention, simply on account of the interplay of various interests. Producers who seek profits through export may influence the government to push their foreign sales through subsidies or loans. Other producers who fear the com-

petition of imports may induce the government to assist in keeping them out through protective tariffs. The resulting action of our economy, viewed as a whole, is that we sell more than we buy. There is also a possibility that we may adopt the course of maintaining an export surplus as a deliberate national policy. Here lies the dramatic contrast between our situation and that of the British. Their national need to export is a direct consequence of their need to buy abroad. They are suffering, and fear that they will continue to suffer, from a deficiency of goods. But we fear that we can produce more than we can find means of distributing to our own population. If we are to have a national policy of giving away exports, it will be because we think we cannot otherwise fully employ our factories and farms, and the men and women who work in them. We shall then, as the British say, be exporting unemployment. They see no moral justification for such behavior.

It is up to us, they believe, to solve our unemployment problem at home, as they plan to solve theirs. That may involve drastic readjustments in the nature of our production, or in our distribution of income, or in our public fiscal policy, or in our tariff, or in all these things and more besides. But it is absurd to assume that a nation must permanently produce more than it consumes in order to save its people from want. There is, in the long run, no escape from tackling any necessary internal readjustments. If we avoid the necessity for awhile by giving away our surplus, the reckoning will be all the more severe, for we shall ruin the rest of the world in the process, provided it continues to consent to accept our charity.

At this point it is necessary to say something about the process of foreign investment. Whenever in any given year a nation lends more abroad than it borrows abroad, its exports of goods and services must be larger than its imports. Only in this way can the transfer of payments arise that is necessary to convey the proceeds of the loans to the foreign country. (Of course, we are not speaking here of mere book credits which are not used to buy anything.) There is no objection on the part of British economists, nor can there be any sound objection, to international investment of the right kind. Many other parts of the world wish to build up their industries and

their productive power, and America has plenty of surplus capital to lend them. Investment of productive capital is the only way in which the wealth and income of the world can grow, just as it is the only way in which to increase wealth and income within a nation. It is a basic condition of an expanding world economy. A surplus of exports from the United States arising in this way cannot injure anyone.

The danger is, not that we shall make foreign investments, but either that we shall make investments which are so unsound economically that they do not add to the productive capacity of the world, or that even though we make productive investments abroad, we shall not do our share in absorbing the increased product by increasing our foreign purchases as our foreign investments grow. If either of these mistakes is made, the ultimate consequence will be that repayment of the loans will be defaulted and, as a result, the outflow of new investment will shrink. A shrinkage of new investment is precisely the chief activating cause of depression. This is as true internationally as it is within the nation.

It would be possible gradually to bring to an end a net outflow of foreign investment from any given country without damage to the world economy, provided that country at the same time increased its purchases from abroad enough to balance its foreign trade at the previous high level of its exports. This would mean in effect that it was substituting, on a world scale, an increased consumption expenditure for the investment expenditure which had been withdrawn. If the country in question wanted repayment of the loans it had made, it would have to go even further and buy more abroad than it sold there. This was exactly the practice of Great Britain before the war. But if a nation suddenly reduces its foreign lending without simultaneously increasing its foreign buying, it diminishes the amount of purchasing power in circulation, and so exerts a depressing effect on all the nations that have trade relations with it.

The fear that the United States may pursue this course is not merely an imaginary one, but rests upon what we actually did during the decade just after the First World War. The immense purchases which had been made in this country during the war by the other

belligerents were financed largely by American loans to them, and we emerged from the war a creditor nation, at least on the books. After the sharp but brief postwar depression of 1921, a large amount of private foreign investment was added to the governmental war debts. From 1919 until the end of 1929, we provided approximately 7,500,000,000 dollars of new capital to other nations by means of foreign loans floated in this country. This was greater than the total of the foreign loans made in the same years by all the other capital-lending countries combined. In addition, Americans made a large volume of direct investment abroad. Thus during a relatively brief period we became a leading creditor nation, with foreign investments about equal to those built up by Great Britain during the whole preceding century. There was an annual increase in the foreign lending of this country in every year from 1919 to 1927, with the single exception of 1923. It would not be too much to say that the purchasing power, in terms of dollars, thus supplied to the rest of the world was a major factor in the economic recovery that characterized the period in question. The stimulating effect of this new investment was of course accompanied by the sustaining power of a large volume of American imports which resulted—in spite of our high tariffs—from the need for materials by an expanding American industry and the growing purchasing power of American consumers of tropical foods.

While there is no doubt that the world needed capital and that it was entirely proper for the United States to invest abroad, the investment policies actually pursued were anything but far-sighted. An authoritative description of the process is contained in *The United States in the World Economy*, published by the U.S. Department of Commerce:

“Enticed by the prospect of commissions much higher than those available on domestic issues and faced with the necessity for a continuous flow of new securities to keep large staffs of bond salesmen employed, American investment bankers had their agents ‘sitting on the doorsteps’ of prospective borrowers, as one observer put it, offering them money and many times persuading them to borrow more than they actually needed. The bonds were widely distributed,

in turn, to the American investing public, which was attracted by the high yields obtainable and apparently willing to rely on the judgment of the selling bankers as to the safety of the loans.

"This uncontrolled and extremely competitive method of foreign lending led almost inevitably to unwise, and frequently to wasteful, use of loan proceeds and to overborrowing by many countries. Evidence presented at hearings held before the Senate Finance Committee in 1931 and 1932 contains many references to such situations. Funds provided by loans to Cuba and Peru appear to have been spent in a particularly wasteful and extravagant manner. And regardless of the basic worth of many of the projects made possible by foreign loans, it was obvious as early as 1926 that many countries were borrowing far more than they could reasonably be expected to repay. This overborrowing was recognized by authorities in the borrowing nations themselves—in Peru and Germany, for instance—but these authorities were either unable or unwilling to stem the flow of American capital into their countries. Moreover, the governments of some countries that had been consistently large borrowers for several years were probably fearful of the shock to their economies likely to result from a sudden cessation of capital inflow."

This activity continued into 1928, but by the middle of that year the speculative boom on the New York stock market began to offer such apparently magical possibilities of quick profits and attracted so much money that foreign investment began sharply to fall off. At the same time, the unsoundness of many of the investments which had been made began to appear more clearly, and appreciation of this fact discouraged more of the same kind. The disturbing effect of this sudden stoppage in the flow of foreign loans was somewhat masked by the continuance of a high level of imports into the United States up to the middle of 1929. Then, however, with the coming of the crash, a sharp diminution of purchases by Americans abroad was added to the restriction of the flow of capital. Within three years the supply of dollars furnished to foreigners by American loans and imports combined was reduced by 68 per cent annually. Thus we unsettled the economy of the entire world. The nations upon whom

this blow fell suffered an acute shortage of dollars with which to meet their debt charges to us and with which to buy what they needed here and in other countries. Payments on many of the debts were necessarily defaulted.

It then appeared that what we had been doing in effect was to maintain a surplus of exports over imports financed by foreign investment, much of which could not be repaid. We had, in other words, given away goods and services. While the process was going on, our exporters enjoyed an unfair advantage over those in other countries who could not so freely offer loans in exchange for orders. This was not too serious as long as total trade was expanding. No doubt the rest of the world would have had little objection if the process could have been continued indefinitely. The chief trouble was that it could not be continued. Nothing is so demoralizing as first to make others dependent on your charity and then suddenly to withdraw the gifts. The British are right in desiring that there be no repetition of this experience. We should be wise if we shared their apprehension, since its ultimate consequences were even more unhappy for ourselves.

The fear that we shall give our wealth away in a mistaken belief that this is a good method of preventing unemployment is closely associated with another and even more prevalent and deep-rooted fear on the part of the British. This is that we shall suffer another great depression and drag the world down with us as we did after 1929.

Many Americans have been led to believe that our depression was international in origin and was brought upon us as a sort of inevitable consequence of the First World War. This seems to mean to them that its causes lay somewhere outside the boundaries of the United States and were beyond our control. Such a view of the matter is not accepted in England. Though disturbing factors existed in other parts of the world, the British are more conscious than we are of the sheer weight of the American economy and of the leading role played by it. If our economy had been sound internally, its triumphal progress in the first postwar decade might have been slowed down by unfortunate events in other regions, but it could



hardly have suffered the disastrous collision which for a time wrecked the whole machine. There was something wrong with the steering gear.

Whatever the causes of the great depression, it is obvious that the way in which the United States manages its economy must have a decisive effect on the prosperity of any other nation which has dealings with it. If we can contrive to remain prosperous, others will find it much easier to do so. If, on the other hand, we allow production and employment to suffer a drastic decline, other nations will almost certainly be affected adversely, no matter how sound and how well calculated their own economic policies may be. Moreover, it ought to be possible for us to safeguard our economic activity against any unfavorable influence which may arise anywhere in the world, since the purchasing power of our own population and our own productive capacity are so much greater than those of any region where unsettling incidents may occur. The British feel that they are competent to maintain high employment and avoid sharp fluctuations as far as their own internal economy is concerned. If they only had the resources of the United States, they would believe themselves immune against external misfortune. It is not unnatural for them to think that the chief danger to their economic stability in the future will flow from the United States.

They regard our economy as one suffused with energy, but subject to great variations and difficult to stabilize. They suspect that we shall not subject it to the conscious control that would be necessary to prevent booms and depressions. They sense in this country no overwhelming public sentiment for the public expenditure or type of fiscal control or the planning which they expect to employ in their own economy in order to assure full employment and to minimize fluctuations.

Even the Roosevelt Administration was not too sure of itself in internal postwar planning. Congress can almost be counted upon not to understand an economic philosophy of this kind, and to wreck its execution in general and in detail. Traditionalism is strong among bankers and businessmen. Vested interests seeking their own advantage in subsidies and tariffs are voluble. Even many academic

economists are still living in the fairyland of an automatically self-regulating private enterprise.

After the last war, business was dominant, and we let things take their course. We had a sharp inflation and deflation. We insisted on payment of war debts, while at the same time we raised tariffs against imports. We led world recovery for a few years by a boom in building, automobiles, radio. We did marvels in increasing productivity per labor-hour. We were, indeed, so proud of our economy that we expected the boom to last forever. Instead of being prepared against its collapse, we let it overflow into fantastic speculation.

The British, who shared many of our illusions at the time, believe they have learned something from this experience. They are not at all sure that we have done so. Too many of the noises from this side of the Atlantic sound as if we were now preparing to accept a new version of Harding "normalcy." Scarcely a day goes by without a declaration by some important person that governmental intervention must cease at the earliest possible moment and that we must rest our future in the hands of private enterprise under a regime of competition (which is far less prevalent now than it was in 1920).

The figures show that the depression of the thirties was both deeper and of longer duration in the United States than it was in other industrial countries, with the possible exception of Germany. This is true whether the decline is measured by national income or by industrial production. The curve tracing the national income in the United States indicates that it never recovered to the 1929 level before the outbreak of the war. The aggregate national income of eleven other countries (United Kingdom, Canada, Australia, New Zealand, Denmark, Norway, Sweden, France, Netherlands, Germany, and Japan) had recovered to the 1929 level by 1934, and in 1937 was 25 per cent above it. Industrial production in the United States got back to the 1929 level only in 1937, whereas in these eleven other countries it did so in 1935 and thereafter rose above the peak of the previous boom.

Great Britain was no exception among these other countries, differing from the general experience only in the fact that her slump was relatively moderate. The way in which Britain was affected by

our depression, however, is indicated by the fact that her curve of foreign trade followed much more closely the national income in the United States than it did her own national income. In Great Britain, for instance, exports were cut nearly in half at the bottom of the depression, although the national income was reduced not more than 15 per cent. And even at the top of the subsequent recovery in 1937, British exports were only 70 per cent of the 1929 level, whereas British national income was 10 per cent above it. The foreign trade of the United States, however, fluctuated in a much closer relationship to its national income, and the imports of this country fell and rose in almost exactly the same ratio as did its industrial production. From these facts it is inferred that the exports of the British are far more dependent upon the state of economic activity in the United States than they are on the state of the British internal economy. It is also inferred that the depression was primarily an American phenomenon, even though it severely affected the welfare of other nations.

It may be asked how it can be that British foreign trade should depend so closely on American prosperity in view of the fact that the United States bought only about 6 per cent of Britain's total exports. The reason is that the normal course of trade is not bilateral barter, but flows about in larger circles. Even in a single city, the department stores suffer when the factories lay off men, not because the factories buy anything from the department stores, but because the families who do buy from them are dependent on the factories for the money with which to make their purchases. *Planning*, a British publication, describes the process in this way: "Malaya, for instance, sells less tin to America, Brazil, less coffee; in consequence, Malaya has less to spend on cigarettes from Britain, on petrol from the Dutch East Indies, while Brazil has less to spend on iron and steel from Britain, on wheat from the Argentine. Britain, the Dutch East Indies and the Argentine, in their turn, have less to spend on imports, and thus a vicious circle of declining world demand is created, causing trade as a whole to contract by far more than the mere reduction in U.S. imports. In relation to our need to expand exports after the war, it follows that the crucial factor is the maintenance of full employ-

ment, or at least the avoidance of slumps, in the United States."

In popular discussions of foreign trade, it is often assumed that a trading process is merely a struggle among the industrial nations to see who can export the most to the rest of the world. This assumes that what one of them gains, another must lose. It may therefore seem strange to assert that the chief requirement for an expansion of British exports is prosperity in the United States. Insofar as individual business concerns are involved, it may be true that what one loses another gains, especially if the total of trade is stationary or shrinking. But this idea of commerce completely ignores the fact that the best customers of the industrial nations are not the backward, raw-material-producing regions, but one another. Within a nation it is easy to see that prosperity is indivisible. Few people realize that in the period between 1919 and 1939 the British Empire bought 41 per cent of all the exports from the United States and that more than 35 per cent of all imports into the United States came from the British Empire. Within the Empire, the United Kingdom was second only to Canada as a customer of the United States.

Another widely held delusion, closely akin to the first, is that when a backward region is industrialized it becomes a competitor of the more advanced nations and ceases to be a buyer. This may be the case in a particular industry. In general, however, the more productive a nation becomes and the higher its income, the more it buys. A striking example is that of Canada. Between 1900 and 1940, the gross value of Canadian manufactures increased from \$481,000,000 to \$4,529,000,000. In the same period its imports from the United States not only did not decline, but increased about sevenfold, or from \$107,000,000 to \$740,000,000.

As long as the channels of world trade are open, therefore, any increase in prosperity anywhere favors the increase of prosperity everywhere. This applies with special force to the United States, which by its sheer economic magnitude dominates the economy of the world. There is nothing illogical in the fact that the possible injuries which the British leaders of economic thought fear from us are identical with the chief injuries which we may inflict upon ourselves.

Let us now translate these fears into positive form. What is it that the British really want from us? They do not want philanthropy. They do not even want loans if they can possibly avoid incurring them. They do not expect American businessmen out of generosity to efface themselves from world commerce in order that Britain may survive. They do not even want a reduction of exports from the United States in order that British exports may replace them. Their essential desires, upon the fulfilment of which everything else depends, are capable of being stated in two sentences.

*First, it is necessary for the survival of Britain that we maintain full employment in the United States by distributing to our own people the highest level of living we are capable of producing.* The implication of such action for foreign trade would be, not to restrict exports, but merely to make sure that we received from the rest of the world as large a value of goods and services as we shipped out. It would prevent us from first giving away a substantial portion of our wealth because we did not know how to distribute it at home, and then ruining both the beneficiaries of our charity and ourselves because we could no longer find a way of continuing the gifts. Altogether, this desire on the part of the British does not seem unreasonable, nor does it bode us any ill. It could scarcely be opposed in the interest of the people of the United States. Only those would oppose it who do not wish to take the measures necessary to bring about full employment, or to effectuate a better distribution of the national income.

*Second, it is necessary for Britain's survival that we should, having achieved full employment and a high standard of living, maintain it steadily instead of allowing employment and production to collapse, as they did in the period between the wars.* This also could scarcely be described as a hostile intention. Not more than a tiny minority of Americans would admit that they desired anything else. Something more would be required on our part, however, than vague good intentions if we were to effectuate the aim. We should have to take a good deal of painful thought. We should have to pursue quite a different course from that which led us to disaster after the last war. We should have to plan and control our economy, directly or in-

directly, in such a way that there would not develop the distortions and failures of equilibrium which inevitably lead to slumps. While almost nobody in America wants a depression, there seem to be relatively few who have confidence that they know how a depression may be avoided or who are willing to support the means recommended to achieve this end.

What will Britain do if we do not try to gain or do not succeed in gaining these two goals which are essential for the solution of her life-and-death problem? There are some who believe that she will do nothing but accept the fate imposed upon her by us, because there is nothing effective she can do. But these pessimists are in the minority. There is in England an important body of informed opinion which believes that an escape may be found. Most Britishers would not choose this way if they could feel real confidence that the United States would solve its own economic problem. They think that the route for escape which they see open is a dangerous and difficult one, and would be a far less happy solution than that which would be provided by a stable and prosperous America. Nevertheless, they are resolved to take it rather than risk being submerged by another American depression. The route in question is, in brief, to build a trading area capable of insulating itself from the American economy. The British believe, with some reason, that if their country had as large resources as either Russia or the United States and were as nearly capable of being economically self-contained, they would not need to fear any depressing influences from outside. Unfortunately for them, this is not the situation of the United Kingdom itself. But many of them hope that an association of like-minded nations, with the British Empire as its foundation, might be created which would be capable of maintaining full employment and a relatively high standard of living, no matter what happened in the United States. Discussion of this project must be reserved for another chapter.

## CAN BRITAIN INSULATE HERSELF?

IF the United Kingdom is to be closely associated with a world-wide economy in which the United States will necessarily play the most important role, she will not be able to expand her exports sufficiently to sustain her people at all, to say nothing of supporting a higher standard of life, unless the United States maintains a high level of economic activity and purchases freely abroad. Fear that the United States will not do so prompts important leaders of English thought to seek a means of protecting their nation against the chances of American misfortune. In order to understand the means suggested to achieve this end, it is necessary to know something about the theory of international trade and about its history during the past few decades.

The classical school of economics, which originated in England and for many years found its chief expression in British economic policy, held that there should be as few obstructions as possible in the way of trade. Within a nation, it was believed, freedom for competitive private enterprise would permit an interplay of supply, demand, and price such that the use of the available natural resources and labor power would be adjusted as closely as possible to the demands of consumers. If any article were scarce in relation to the demand, its price would rise. This would tend on the one hand to limit the use of the more scanty resources, and on the other to stimulate businessmen to find ways of satisfying the demand. If the quantity of any article offered for sale exceeded the demand for it at the price set, the price would fall, and the demand would thereby be increased. If a surplus still remained at the lowest possible price, the attention of producers would be directed to the output of other and less plentiful goods. In this process of continual adjustment, those regions and those producers who were able to offer the better prod-

ucts at the lower prices would tend to survive, and thus economic efficiency would be promoted. The net outcome would be that the consumers would get as much of what they wanted, in the order of the relative intensity of their wants, as the available resources and the productive efficiency of industry would permit. The producers, in turn, would each be working at the tasks for which they were best fitted and which would offer them the highest reward.

The theory held that the same principles applied internationally. The more nearly trade among nations could be conducted with the same freedom as within a nation, the larger its volume would be, and the greater would be the benefit to all. It was expected that such a policy would promote the specialization of each region in the production of those things which it could make best and cheapest, and the exchange of these products for those of other regions which were better equipped to make other types of goods. On this ground, protective tariffs were opposed, and for many years Britain actually practiced an approximation to free trade. She had an early lead in factory production, and developed her mechanical industry not only by satisfying the wants of the domestic population, but by selling her manufactured goods abroad and taking in exchange food that could be grown more cheaply elsewhere or raw materials that were not to be found within her borders. So great was the demand for her products that she earned a surplus not expended for imports of goods, by means of which she accumulated great foreign investments.

Younger nations desiring to build up industry, like the United States and Germany, did not consistently follow the same policy. Even under a free trade system their manufactures probably would have grown, but they wished to hasten the process, and did so by enacting protective tariffs intended to reserve the home market for domestic producers. The United States continued to export raw materials and food to England, but did not take in exchange nearly so many manufactured goods as would have been imported if there had been no tariff. Protection naturally stimulated the growth of some industries which had such high costs of production that they could not have survived in competition on a world market. But the



domestic market was so large that any possible inability to compete abroad was not greatly regretted.

For many years before the First World War the United States exported a larger value of goods than she imported, and the net balance of payments due her on foreign trade was employed to meet the charges on foreign investments of capital in this country, which were greater than American investments abroad. Thus there arose no important disturbance to the balance of payments. At the same time production and consumption were growing so rapidly throughout the world that the obstructions offered to international trade by the protective tariff systems of the United States and other nations did not seriously interfere with Britain's ability to sell abroad.

International trade differs from trade within a nation not only because of the ability of national governments to obstruct it at their borders, but because each of the several nations has its own system of currency. A visitor from Chicago to New York may take his dollars with him and buy whatever is for sale in New York without further ado. A merchant in any one state may buy from a merchant in another without bothering to obtain a different kind of money from that which he normally uses. But anyone in the United States who wishes to buy in England must exchange his dollars for pounds. This necessity offers no great difficulty when the exchange values of the various currencies do not change materially from month to month and from year to year. That was normally the condition before the First World War.

But there is no basic assurance that the exchange values of the several currencies will remain stable. As long as foreign exchange is not controlled and is dealt in on free markets, the price of any given currency in terms of another varies with demand and supply, just as in any market. If the people seeking to buy dollars want more dollars than are offered for sale, the price of dollars will rise. It will then take more sterling to buy a given number of dollars. Under the gold standard, which prevailed generally before the First World War, such price variations were small and quickly checked. This was because the valuation of each currency was fixed in terms of the precious metal, and anyone could buy gold with his dollars or pounds

if he wished to do so. Therefore, if the price of dollars in pounds rose above their gold value, it became cheaper for a person who wished to exchange pounds for dollars to buy gold instead and pay his debts with that. Thus exchanges fluctuated only within a narrow range determined by the cost of shipping gold from one country to another.

Such a system could work, however, only so long as the excess of demand over supply for any given currency was not persistent and large. The amount of gold itself was limited, and each nation needed to retain a certain minimum as a banking reserve against its own currency and credit. If a large outflow of gold should continue, there would come a time when gold shipments would have to be stopped. Then there would be nothing to check the drop in exchange value of the currency, as long as the demand for it in the exchange markets was less than the supply. Therefore, the stability of exchange values ultimately depended upon a balance between supply and demand for the several currencies. This in turn depended upon balanced international payments, for a nation which consistently sold more abroad than it bought, and did not use its excess of payments either to pay foreign debts or to invest in other countries, would soon create a demand for its currency that was greater than the amount supplied by its outgoing payments.

During the First World War, all the nations concerned temporarily suspended the gold standard and installed governmental control of foreign exchange. The tremendous shifts in ingoing and outgoing payments which the war occasioned would have created chaos in the exchange values of currencies if they had not been arbitrarily pegged. After the war, all the important nations attempted to restore the former conditions by returning to some form of the gold standard. This was not easy to do because great price changes had occurred, and the levels of prices in the various countries did not bear the same relationship to each other as formerly. That in itself tended to upset international balances of payment, since the gold values of the respective currencies were not closely adjusted to the new price situation.

Another change eventually caused still more trouble. The United

States no longer was a debtor nation. Foreign investments in this country had been sharply reduced in order to make the necessary war purchases, and, in addition, the British and other governments had borrowed heavily here. Nevertheless, this country continued to sell more goods abroad than it bought there. We could no longer use the excess of payments on trade account to meet any net foreign indebtedness. For a while the surplus was used to build up the foreign loans and investments made by Americans in other countries, and thus the balance of payments was precariously maintained. When, however, the outgoing flow of investment began to drop sharply in 1928 and when, in 1929, we also began to import a much smaller quantity of goods, the inevitable result was a severe shortage of dollars in the exchange markets.

After the first flight of capital from New York caused by the 1929 panic, the gold of the world began to drain into the United States. This was the only way in which enough dollars could be obtained by foreigners to meet their debt charges in this country and to buy from us what they needed. Of course, most of the governmental war debts were forgotten and many others as well suffered default. It was not long before gold payments were stopped, and nation after nation went off the gold standard. Exchange values then began to depreciate. There is no stopping point to this process, however, since exchange depreciation can become competitive among nations, and any given relation between the value of two currencies may thus be maintained, however low both of them may become in terms of gold. The nations which suffered most severely—other than the United States—soon turned to other devices, which now began to be invented with great ingenuity. The use of the foreign exchange available for purchases abroad was placed under governmental control, so that it could be allotted for the most necessary purposes. Efforts were made by use of barter agreements to get rid of embarrassing surpluses of goods which could no longer be exported in ordinary trade. Imports were restricted by various new devices much more effective than protective tariffs, such as quotas applied to particular kinds of goods.

Devices of this sort were subsequently described as obstructions

to trade. They were, indeed, departures from the prescription of the free trade theory. It must not be forgotten, however, that they were the effect of a restriction of trade which had quite different origins. They began as measures of last-ditch defense against profound disturbances proceeding from the United States. Our production and our import and export policies had through a long course of years become so adjusted as to maintain the surplus of exports—and the consequent excess of payments due on current transactions—appropriate to a debtor nation. When we suddenly became a creditor we did not alter our structure of production or our economic habits to fit the new situation. We thought we had found a way out by investing the excess of payments abroad, but it became impossible to continue that form of relief. At the same time we greatly aggravated the situation by unwittingly allowing the collapse of our internal prosperity and thus restricting our purchases of foreign goods. These were the basic causes of the world-wide contraction of foreign trade. The measures adopted by other countries to defend themselves against the resulting ruin were merely the effects of that contraction.

Whatever the obstructions erected against the flow of international trade by these devices, it is interesting to note that economic activity in the world outside the United States experienced a spirited recovery, which by 1937 had carried it above the high point of 1929, whereas in the United States recovery was delayed and never attained the predepression level before the onset of the Second World War. This would suggest, not necessarily that the barriers to trade were in themselves a stimulus to recovery, but rather that the chief causes of the slump were centered in this country.

Great Britain was one of the two most important nations which employed foreign trade controls during the depression. She did so with the aim of increasing her exports and thus relieving unemployment in her export industries. She had recently abandoned free trade by enacting protective tariffs, and had made an agreement among the members of the Empire, known as the Ottawa Agreement, according to which they permitted trade with one another at lower duties than those charged against nations outside the scheme. This is called the system of Imperial Preference. Britain now pro-

ceeded to negotiate bilateral trade agreements with nations outside the Empire which were dependent for a large share of their exports on British markets. These nations agreed to buy more from Britain, in exchange for promises not to raise British tariffs against them or to reduce quotas allowed for their sales of goods in the United Kingdom.

Within a few years after the signing of these agreements, exports from Britain to the nations in question—notably Argentina, Denmark, and the other Scandinavian and Baltic nations—increased far more than their exports to Britain. Imperial Preference exerted precisely the contrary effect. Under it, Britain imported more from the other parts of the Empire than she had previously done, but exported less to them. At the same time, Britain's exports to the more important nations with which she had no trade agreements declined. On the whole, these measures were a means of increasing trade somewhat among those who were parties to them, but not of enlarging world trade in general. Indeed, it may be inferred that the improvement in Britain's foreign trade which occurred during this period was more a consequence of her internal recovery than of the trade control measures.

Britain employed still another device for protecting her economy during the years of depression and recovery. She did not install exchange control, but made what were called clearing agreements with those nations which did do so. Under an agreement of this sort, British importers paid the money due to the exporters of the other nation into a special clearing account. British exporters to the same country were guaranteed payment of the sums due to them, out of this account. Any remaining surplus was employed for payment of interest and principal on old debts owed by the other nation. This was not only a device to make sure that the amounts due would be paid, as far as the amount of British exports rendered payment possible, but also to support the balance of payments so that there would be the least possible depressing effect on the exchange value of the pound.

Germany was the other great industrial nation which resorted to new foreign trade devices. She had never been a convert to free trade

and had long had protective tariffs. She now installed bilateral trade agreements, import quotas, exchange control, and clearing agreements. At the beginning, these were probably economic defensive measures adopted for the same purposes as those which were uppermost in Britain and other countries. Under Hitler, however, they became instruments of political policy and an adjunct to the war economy. Rearmament had already abolished any serious unemployment problem. The Third Reich was concerned, not with increasing the volume of German exports to relieve unemployment, but rather with obtaining the foreign goods which Germany needed. It took care to export those things which were of less value to the war economy and to import goods in accordance with a schedule of war priorities. At the same time, the trade controls were used to bring into economic subjection nations which were strategically important to her war plans. In addition, Germany pushed the exports of those goods which she needed least by a system of export subsidies intended to weaken the trade of her chief competitors.

British commentators now point out that, while the warlike purpose of Germany's foreign trade policy was unjustifiable and its more extreme measures could not have been continued for long if peace had endured, the only sensible motive for foreign trade in the case of any nation, even the most pacific, is to get what it needs from abroad with the least expenditure of goods shipped out. No nation is in a position to carry out this policy successfully unless, like prewar Germany, it is already enjoying relatively full employment.

In 1934, when the Roosevelt Administration was still young, Cordell Hull, as Secretary of State, inaugurated a foreign trade policy which not only reversed the previous protectionist tendency of the United States, but was pointed in a direction quite different from that of Britain, Germany, and most of the rest of the world. He was a believer in the classical theory of free trade and wished to encourage its practice as rapidly as political opposition would permit. His instrument was the reciprocal trade agreement. Instead of asking Congress to enact a new tariff law reducing import duties, as had been the habit of the Democratic Party, he asked for a law which would in effect delegate the tariff-making power to his De-

partment The law in question was passed. It permitted the State Department to negotiate agreements country by country, under which American duties could be lowered as much as 50 per cent below the existing rates, in return for concessions by the other party. This was a means of removing the tariff from the influence of special interests which always had exercised political pressure on Congress. It was also a means of reducing import duties charged by other countries Any trade agreement signed was automatically extended by the signatories to other nations which granted them as favorable tariff treatment as was received by "the most favored nation" Against exclusive or discriminatory trade practices Secretary Hull never ceased to wage war.

Trade agreements were made by the United States with nineteen nations before the Second World War Import duties were reduced on over a thousand separate items, and reductions were substantial in most cases. This, however, left untouched nearly two-thirds of the items covered by the protective tariff law of the United States. The most-favored-nation plan was less effective in practice than in theory, because many of the reductions made were on goods important as exports only to one of the bargaining countries. The policy was more successful in increasing exports from the United States than in increasing imports to it. Indeed, while American exports to trade-agreement countries rose almost twice as much as exports to countries with which no agreements were made, the imports from trade-agreement countries actually increased less than the imports from those which had negotiated no agreements. The practical effect of the policy, in increasing exports from the United States to the nations with which agreements were made, was almost identical with the effect of the bilateral trade bargains made by Britain.

Nor was the Hull policy any more successful than the so-called restrictive practices of other nations in enlarging world trade as a whole Such general increase of trade as occurred during the period was probably little more stimulated by the free trade policy than by its opposite. In both cases, the principal cause of expansion was undoubtedly the internal recovery taking place within the several nations The lag of international trade behind the rise of world pro-

duction up to 1936 may perhaps be attributed to the growth of economic nationalism in this period, but, in spite of any such effect, the lag had been considerably diminished by 1938 without any change of importance in the nationalistic tendency.

Another development of the interwar period, which continued during the Second World War and is likely to persist in the future, is the sterling area. This consists of members of the British Empire and of some nations outside it which, in the effort to regain and protect stability of exchange values, linked their currencies with the pound. The nations concerned had long been closely connected with England by international trade and banking practices, and it was natural that the exchange values of their currencies should tend to rise and fall with that of sterling. This now became a conscious policy carried out by the several governments. Its advantages were first, that it removed the uncertainties of fluctuating exchanges as a barrier to trade within the area, and second, that it enabled all the participants better to safeguard their currencies against pressures from the outside than any one of them could have done alone.

The danger of competitive exchange depreciation between the sterling area and those nations whose currencies were more dependent on the dollar was eventually removed by a tripartite exchange stabilization agreement among Great Britain, France, and the United States. Under this agreement the exchange values of the three chief currencies were held at an agreed point by the use of stabilization funds to buy and sell in the exchange markets. One of the principal reasons for the establishment of this agreement was the fact that exchange fluctuations in response to variations in regular trade and financial transactions were being exaggerated by speculators and flights of capital. It was strongly suspected that attacks on the currencies of particular countries were also being made for political reasons.

The government of the United States has been proposing that after this war all nations abandon the discriminatory and restrictive trade controls which grew up before it, and unite in working toward the multilateral free trade which Britain had practiced in former years and which Secretary Hull's policy sought. Many leading



American business interests, no longer afraid of foreign competition and wishing to enlarge exports, now support this policy. American agriculture as a whole has historically favored it and still does so, with the exception of special interest groups such as the growers of sugar beets.

Opinion in England, however, is sharply divided on the subject. Some few still maintain the classical position without substantial modification. At the other extreme there is an influential body of opinion which has rejected *laissez faire* as a domestic policy and regards the planning of international trade as an essential concomitant of a planned economy at home. Such planning could not be executed, it is believed, without the use of measures which would be called discriminatory by those who follow Mr. Hull. Between these two extremes is a third group, probably more influential than either, who believe that free multilateral trade would be desirable as a means of permitting the highest possible efficiency and standards of living, but do not regard it as any insurance that trade will actually expand. Multilateral trade covering the entire world would, they think, be less desirable, if it were subject to the restrictive influences of a depression in the United States, than would a more limited area which could maintain its own economic activity while excluding, wholly or partially, the influence of the American economy.

Those who believe that freedom of trade offers no guarantee against depression point out that the United States itself was not between the wars so dependent on exports and imports as to be thrust into a deep depression by any slump in the ability of other nations to buy from it. The depression of the thirties arose in the United States mainly from internal sources. Within the vast trading area of this country there are no problems of fluctuating exchanges because it enjoys a single monetary system. There are no protective tariffs along state boundaries and no bilateral trade agreements between states. Other obstructions to the flow of goods and payments are relatively few. Yet the United States during that decade suffered a worse depression than any other nation in the world. This depression was not caused by trade barriers.

The kind of instrumentality available to insulate a limited trading

area against possible American depression is already at hand in the controls invented before the war and perfected during it for war purposes. For instance, exchange control could be employed to allot the amount of foreign currencies available to the sterling area for the most necessary purchases of goods outside it. The allotment would presumably be made according to a priority list in harmony with the domestic planning of the nations in the area. Price fluctuations outside the area which diminished the saleability of exports originating within it, because of the competition of depressed foreign industries, could be counteracted by export subsidies.

Nations within the area could partially stabilize the factor which fluctuates more than any other in a highly industrialized economy, that is, the manufacture and sale of capital goods, by making long-term sales agreements for such goods with countries wishing to industrialize. The prices of these goods could be stabilized at the same time by being fixed in the agreements. Countries that depend mainly on the export of raw materials could stabilize the markets and prices for these products by making long-term sales agreements for them with countries which would be eager to import them. Exchange clearing agreements could assure payment between countries having long-term sales agreements. Presumably the countries within the area would borrow as little as possible from those outside it, but rather would seek to provide their own long-term capital. Thus, they would not become dependent on any flow of foreign investments from the United States which might suddenly be cut off.

The nucleus of a group of nations which might unite on policies of this kind already exists, in the British Empire and the sterling area. It is hoped that France, Belgium, the Netherlands, and other Western European countries would affiliate with it, since they have politically a leftward tendency, are almost certain to engage in a high degree of planning of their internal economies, and will be at least as desirous as Britain of maintaining full employment at home. Not all the markets and resources needed by the nations concerned would exist within the area. Nevertheless, it is expected that nations outside it, like Argentina, which is both an important source of food

products and a large market for manufactured goods, could be persuaded to make the necessary agreements with it in spite of any competitive economic pressure exerted by the United States, because many of the countries within the area are eager to buy Argentine goods, whereas the United States excludes Argentine beef and is a competitor for Argentine grain. It is thought that Argentina would rather accept British manufactures in exchange for her exported crops than American manufactures in exchange for loans which Argentina probably could not repay.

It would be essential, of course, that each member of this trade association of nations adopt the same general monetary and fiscal policies and the same price policies. In particular, they would all have to endeavor to maintain full employment by an effort to sustain and expand internal purchasing power, in the main by balancing savings with investment. But such an agreement would not seem difficult to achieve. Some, at least, of the British Dominions are more bent upon a course of this kind than even Britain herself. The European nations that have been ravaged by war will be as likely as Britain to resort to large public expenditures for reconstruction and in consequence to incur little danger of unemployment, at least for a good many years to come.

The tendency of Europe in this direction may be indicated by the conclusions of the Economic Postwar Planning Commission of Sweden. This Commission is partly governmental in composition, but also represents employers and labor, Chambers of Commerce, the cooperative movement, agriculture, and export industries. It has a competent expert staff. While Sweden prefers free international trade and does not wish to engage in competitive exchange depreciation, she is committed to a full employment policy at home and the stabilization of investment. She would be prepared to protect her internal stability against either inflation or deflation arising from abroad. It would therefore be logical for her to associate her policies with those of other like-minded nations if she felt an imminent danger from a depression in the United States.

To the charge that a plan of this kind involves the use of the same instruments of economic control developed by the Nazis in prewar

Germany, British proponents of the scheme reply that the significance of these methods is altered by a difference in purpose. It would not be the aim of any of the participating nations to build up a war economy or to subject other countries to political aggression. The chief object would rather be to promote the welfare of all the constituent populations by increasing and stabilizing their production and consumption. The Nazi regime strove to build up the industrial production of Germany at the expense of outlying countries, and to compel them to remain sources of agricultural and other raw materials, sold to Germany on unfavorable terms. The proposed association would not be centered in one master, exploitative nation. It would rather seek to industrialize backward regions and raise their standards of living for the sake of the prosperity of all. /

A more cogent argument against the plan holds that while it might increase trade among the member nations, it would do so only at the cost of discrimination against those outside the arrangement. Whatever might be gained by those within the area would thus be at the cost of those outside it. Discrimination and competition of this sort, it is contended, are certain to reduce world trade as a whole. Even those within the area would not be so well served as they might be by a truly international system. The answer made to this argument is that a group of nations associating themselves for the purpose of expanding production and employment would not in fact deprive nations which refuse to adopt similar policies of any foreign trade which they might have enjoyed if the group had never been formed. The amount which other nations can buy from the United States is limited by the amount in dollars which these nations have to spend. This total is not dependent upon anything they may do or fail to do, but rather upon what the United States spends for their products and services. Any increase of trade among themselves which they were able to achieve by mutual agreement would therefore not be won at the expense of American exports.

This reply is valid as far as it goes, but it does not take into consideration what might happen in the case of a trade war between the high employment area and a powerful economic nation outside it, such as the United States. If the United States were suffering from

depression and unemployment, it would be likely to push foreign sales by such devices as export subsidies and foreign loans, even though there was a danger that the loans might not be repaid. In such ways it could provide purchasing power for American products in excess of that which would arise from payment for imports into the United States. In other words, it would be giving away goods to the rest of the world in order to provide jobs at home.

Such a policy might deprive the full-employment area of markets for exports. Thus, that area could no longer purchase outside its boundaries as much as it needed. It might combat the export drive of the United States by subsidies and uncollectible loans of its own, but that would provide no fundamental solution of the difficulty, since by so doing it also would be giving away goods. These presumably would not, as in the United States, constitute a surplus above existing domestic consumption, or goods produced by labor which would not otherwise be employed. The full-employment area would be giving away goods which it could not afford to spare without impairing its own levels of living. By victory in such a warfare, therefore, it might protect the jobs of its peoples, but only at the cost of reducing their consumption.

The choice of postwar international trade policies is often described in the United States as one between multilateral trade on a world-wide scale and bilateral trade of the kind that developed during the prewar depression. Certain English commentators point out that there is a third possibility as far as Britain is concerned—namely, limited multilateral trade which would be as full and free as possible among the members of an international trading area which is not world wide in scope. They suggest that the terms of the discussion should be revised. What the American authorities really are proposing is omnilateral trade, and the alternative is not bilateralism in the prewar sense, but a somewhat limited multilateralism. Such a change in words, however, can not obscure the fact that, if the world were divided into two or more trading areas, and one of these areas were subject to depression, the probable consequence would be cut-throat competition on an even larger scale than in the decade of the thirties.

Some of the keenest thinkers in Britain are therefore inclined to be pessimistic about the future. They are morally certain that there will be another depression in the United States. They would like to insulate the British economy against it if that were possible, and would have no objection to the proposal of a limited full-employment trading area if they thought it would work. They despair, however, of the consequences of trade warfare against a nation with the huge economic bulk of the United States, with its capacity for mass production, and with its great capital resources. They do not forget that the most important sector of world trade is that between the United States and the British Empire. A mere reduction in the American market for British-Empire goods would be extremely damaging to the welfare of any full-employment area, in spite of all possible insulating devices. In particular, the close dependence of Canada on the American economy would embarrass the policy of any economic association of nations which excluded the United States. They see no real hope except in the possible development of stabilized full employment in this country.

## BRITAIN'S DOMESTIC PROGRAM: I

### Social Security, the National Health, Education

IN order to understand the attitude of Englishmen toward international economic policy, it is necessary to know something about the kind of society they expect to create for themselves. Ideas about international trade and finance are frequently expressed as if they were abstractions derived from study of policies that would be desirable for all the peoples of the world regarded as a single unit, but such ideas seldom govern the action of individual nations unless they harmonize with what these nations conceive to be in their own interest. Moreover, in democratic countries especially, no foreign policy can be long or effectively pursued unless it can be stated in terms that will mean something to the majority of the people. And the majority of the people, being concerned mainly about matters that appear to affect their personal lives, naturally think more about domestic affairs than they do about world organization. This is as true in Britain as it is in the United States. The postwar international economic policy in Great Britain will be determined by considerations arising out of the program of the British for the improvement of life within the United Kingdom. Before considering specific areas of Anglo-American controversy, therefore, let us survey the British domestic plans.

These plans are of considerable interest in themselves. It has often been said that the economic and social development of Great Britain, which is the older of the two great democratic industrial nations in the Western world, forecasts the course which the United States is likely to take a score or more years later. This maxim is no more precisely or universally true than most popular observations, and yet there is enough truth in it so that we are en-

titled to look with considerable interest on the development of British society.

Even if we expected never to pursue a roughly similar course, we should nevertheless be alert to a development which has a close bearing on one of the most important social controversies of our time. Ever since the great depression there has been an important school of opinion in the United States which favors the extension of governmental activity to enhance social welfare and to assist in guiding the total economy for the sake of larger and more steady employment and production. The intellectual opposition to this school comes mainly from those who argue that an increase of state intervention and national economic planning endangers democratic freedom. In the United Kingdom the scales have been weighted heavily in the direction of social planning. Almost everybody believes that its extension is inevitable, whether or not it would be abstractly desirable. We may therefore profit by a brief survey of the kind of planning in which the British are engaged.

The news of it which has come to us from time to time in separate books, reports, or cable dispatches may have left an inadequate impression of its extent. Outside of periods of strictly war economy, no other nation of the first rank has previously embarked upon so extensive a program of national planning without at the same time declaring in favor of the principle of dictatorship, at least for the time being. We are accustomed to regarding both the Soviet Union and Hitler's Third Reich as examples simultaneously of totalitarian states and of pervasive economic planning. Yet here is Britain engaged in a sweeping program for a planned economy without even considering the possibility of abandoning its long-established political democracy or its traditions of personal freedom. Britain may turn out to be an important test case in the argument between those who say we can have both planning and democracy and those who say we cannot.

When this book was written, much of the postwar planning was merely on paper rather than actually on the statute books and in the process of administration. The question may be raised how seriously



one must take the prospect that it will actually be carried out in any-thing like the projected form.

There is no doubt that in the early years of the war, a majority of the British public and their intellectual leaders were seriously resolved that something of the sort must be done. They were chagrined by the unpreparedness of their government and their society for the peril which had overtaken them, and were resolved that they must pull themselves together and modernize every aspect of their life. Old shibboleths of every kind almost automatically became subject to criticism. At a later stage doubts began to creep in. Political critics on the left questioned whether Conservative statesmen, who for the most part controlled the government, really meant what they said. The long delay in acting on the Beveridge Report on Social Insurance intensified this feeling. War-weariness and frustration brought a good deal of skepticism to the rank and file of the army and of the civilian population.

Nevertheless, these doubts concerned not so much the validity of the kind of program suggested as the willingness of those in power to carry it out. Few questioned that the voters would insistently demand the achievement of such goals as broadened social security, the most rapid possible development of public housing, and the abolition of any considerable degree of unemployment. If one set of politicians does not achieve these goals, another set which seems more likely to achieve them will be placed in power. This temper exerted great influence in the 1945 election, which bestowed power on the Labour Party. The hard necessities of Britain's economic situation will reinforce the demand for planning. There is no confidence in any important section of the population that it will be possible for Britain to survive without drastic changes in the manner of managing its economic life.

The concept of this new Britain is not stated either in empty slogans or in utopian generalities. A few still cling to the idea that welfare will automatically be served if obstructions are removed from the operation of a theoretically self-balancing system of private enterprise. A few at the other extreme expect no important gain

without some sort of universal revolution. But these static views do not influence either the general public or those with responsibility in government and industry. Rather, they ask what it is in particular that they want to achieve, and what is the best way to achieve it, given the circumstances. Once the details of the separate programs are sketched in, it is possible to ask how they will fit together and what they will mean for the economy as a whole. Let us therefore summarize (with extreme brevity) the chief proposals.

#### SOCIAL SECURITY

The attention of the world was first called to British reconstruction plans by the official report on "Social Insurance and Allied Services" by Sir William Beveridge. The international sensation created by this report cannot be attributed to any novelty in the concept of social security, which has been expressed in legislation in almost all democratic nations. Preparation and publication of the report was a dramatic event in itself because it was issued in 1941 at a time when it was still far from certain that the Axis might not be victorious and when Britain was concentrating every available effort on prosecution of the war. Sir William himself answered the objection that the time was inappropriate in the following words: "This does not alter three facts that the purpose of victory is to live into a better world than the old world; that each individual citizen is more likely to concentrate upon his war effort if he feels that his Government will be ready in time with plans for that better world, that, if these plans are to be ready in time, they must be made now."

Attention was also attracted by the fact that this scheme for compulsory national insurance was a universal one covering everybody in the nation without exception, and insuring against all the major economic risks of modern society. The idea that it aimed to compensate for all misfortunes "from the cradle to the grave" not only inspired the approval of many, but also caused conservatives to object on the ground that it was a form of benevolent paternalism which would undermine individual responsibility. A crude slogan of this kind somewhat obscured the real origin and nature of the plan.

In the first place, we must remember that social insurance of numerous kinds is an old story in England. Workmen's compensation was inaugurated in 1897 and was made general in 1906. Old age pensions on a limited basis were first established in 1908. Compulsory health insurance began under Lloyd George in 1912, and unemployment insurance covering a few industries was adopted in the same year. The latter measure was made general in 1920 and was thoroughly revised in 1934. Special provision had been made for specific types of disability such as blindness. There was also a large development of voluntary cooperative insurance against death and other contingencies. For a long time, the need had been recognized to coordinate these various insurance schemes and unify their administration.

A given person might be paying contributions into a half dozen different funds, and he had to deal with different offices and authorities whenever new contingencies arose. If a man with a wife and two children became unemployed, he received 38 shillings per week. If, while unemployed, he was so unfortunate as to become ill, he was transferred from the unemployment benefit to the sickness benefit, and his weekly receipts fell to 18 shillings. A boy of 17, on the other hand, was entitled to an unemployment benefit of 9 shillings, but could get 3 shillings more if he fell ill while unemployed. Such absurdities were of course unintended, and arose merely from the lack of a comprehensive plan. In addition, many persons were left out entirely, though their deserts and their needs were as great as those of the persons eligible for insurance. Also, the duplication of offices and records involved unnecessary administrative expense. The government wisely decided not only to put an end to such anomalies, but to employ the occasion for devising a fresh scheme in which the problem was regarded as a whole. "Now," wrote Sir William, "when war is abolishing landmarks of every kind, is the opportunity for using experience in a clear field. A revolutionary moment in the world's history is a time for revolution, not for patching."

Second, it is necessary to understand that, while the plan is universal in its coverage, it does not abandon the principles common

to all insurance, that the beneficiary should contribute to a fund from which the benefits are paid, and that the benefits need not compensate for the total losses incurred by the individual. "The state in organizing security should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family." The social aspect of the plan, on the other hand, involves a recognition that it is in the interest of all the citizens and of the community considered as a unit that everyone should have a minimum of protection and should contribute no more than may be reasonably expected of him, even if that does not cover the full cost. Thus, contributions are varied according to the status of the insured and are supplemented wherever necessary by public funds ultimately dependent upon taxation graduated according to ability to pay.

Finally the report recognized that social insurance could be only a part of a general program of postwar reconstruction. It was not in itself a panacea, but was rather a last line of defense against the more extreme cases of want. A plan of this sort could do little to increase the aggregate national income, it was primarily "a method of redistributing income, so as to put the first and most urgent needs first, so as to make the best possible use of whatever resources are available. That is worth doing even if the resources as a whole are insufficient for the standard of life that is desired." But the Report explicitly assumed that there would be other measures which would materially reduce the need for resort to insurance. Thus, there would be a program to lessen the amount of disease, another program to enhance the nation's capacity to produce through better education, and a third program to minimize the amount of unemployment and so at once to increase the total income to be shared and to reduce the insurance burdens that would be placed upon it.

In preparing the new plan, the Committee reviewed not only the inconsistencies of the old ones, but the extent to which existing insurance failed to meet obvious needs. It consulted scientific social surveys made in a number of the principal cities, which revealed the percentage of the population living below a subsistence level and the

causes of the deficiency. Two major conclusions emerged. Of all those persons shown to be in want, from three-quarters to five-sixths were suffering from loss of earning power. The deficiency in the remainder of the cases arose from the fact that the income available to the family unit was not adjusted to its size. From these observations, the Committee drew the appropriate inferences. First, the level of benefits must be raised to a point where they would provide a minimum of subsistence to those who could not obtain employment or were, for any reason, incapacitated for it. Second, there must be family allowances for all, whether at work or not, in order to augment the income according to the number of children.

The next question was whether benefits of the necessary amount could, in fact, be paid. The same social surveys indicated clearly that the desired results could be achieved merely by a redistribution of income among the wage-earning people themselves, even without tapping the surplus of the rich. While in each city many were below the minimum of subsistence, those families who enjoyed incomes above this level were far more numerous, and large percentages of them earned substantially more than was necessary to maintain life. Thus, it would have been possible to bring those who suffered actual want up to the minimum by a redistribution of workers' income which would have made scarcely noticeable inroads on the earnings of those who were more highly paid. The Committee, by citing these facts, did not intend to imply that the nation should be content merely to redistribute the prewar total of income without making any attempt to increase it, or that nonwage earners should not be called upon to pay their just share of the insurance burden.

The Coalition government, in which the Conservatives were dominant, was in no hurry to act upon the report of the Beveridge Committee, but finally, some three years later, it adopted the recommendations with minor modifications in a White Paper submitted by the Minister of Reconstruction. For insurance purposes the population is divided into the following all-inclusive classes:

Class I: Employees.

Class II: Others gainfully occupied.

Class III: Housewives.

Class IV: Other persons of working age not gainfully occupied.

Class V: Children below working age.

Class VI: Persons retired and above working age.

The benefits include unemployment insurance, retirement pensions, maternity grants, family allowances for all children after the first, sickness and invalidity insurance, benefits for widows, and death grants.

Unemployment insurance is restricted to Class I and sickness benefits to Classes I and II. Everyone will be entitled to retirement pensions without any means test, upon reaching retirement age. Group III, or housewives who are not gainfully employed, will not receive sickness insurance, but if a woman's husband is sick or unemployed, the benefit will be substantially increased if the wife also falls ill. Any woman who bears a child will receive an outright grant, plus a weekly benefit for 13 weeks provided she is employed. Even if she is not employed she will receive a weekly allowance for four weeks after confinement, to pay for domestic help. All these benefits will be available to unmarried mothers, if they have made the necessary contributions. Class V, or children below working age, will be accounted for by the provision of hot school lunches for all children, family allowances, and orphan allowances. Unemployment benefits do not continue indefinitely, but will cease after thirty weeks of continuous unemployment. There will, however, be allowances for persons who accept training for jobs in industries where openings may be available. Anyone who contributes for one or more of the forms of insurance will make his contributions in the form of a single weekly payment. The administration will be unified.

Assuming as a maximum an average unemployment of 8.5 per cent, it is estimated that the cost of the whole insurance plan will rise from 650,000,000 pounds in the first year to 831,000,000 pounds after thirty years. In the first year approximately 54 per cent of the cost will fall upon the Treasury or local taxes, the rest being met by contributions and interest. In the last year the share of public funds in bearing the cost will rise to approximately two-thirds Beveridge

hopes to reduce the national average of unemployment to 3 per cent of the working force. Economists in the government are not so hopeful, but expect to be able to produce a result somewhat better than the figures which served as a basis for the actuarial calculations.

#### THE NATIONAL HEALTH

Great Britain not only intends to compensate everyone who is sick for some of the loss of earning power caused by his illness, but also to see that he gets the right kind of medical care, entirely free of payment. More than that, the plan is to reduce the total of sickness and improve the health of those who do not actually become ill.

For many years, Britain has practiced health insurance, which made it possible for most of those working for wages and salaries in the lower brackets to consult general practitioners without paying a fee. Under this system, supplemented by hospitals, clinics, and public health services of the type familiar in the United States, the health record of the population has been improved, and the advances of medical science and art have been enabled to make a contribution which otherwise might have been denied to many with inadequate means. This system, however, left much to be desired. It did not extend to the wives, children, and other dependents of the insured persons. It did not decrease the financial burden of medical care on those whose incomes were above the insurance limit, but were still inadequate to meet the heavy costs of critical or prolonged illness. It provided no assurance that a patient in need of the services of a specialist or of hospital treatment could obtain it. Altogether, about half the population was not covered by health insurance. Doctors serving on the insurance panels, paid on a capitation basis, frequently had more patients than they could treat effectively. Since it was possible for a doctor to make more money by treatment of patients who could afford to pay fees, there was a tendency for the more skillful members of the profession, or at least for those who enjoyed the higher reputations, to become unavailable to the insured section of the population. This tendency would have existed even if there had been no health insurance, but the plan did little to correct it.

There was discussion of the need for improving this situation even before the war, and the discussion was intensified after 1939. While proposals differed, there came to be general agreement that the government must take the lead in making possible a thoroughgoing reorganization. It did so by undertaking a study which, while attempting to profit from past experience rather than discarding it, adopted the same fresh approach which is characteristic of the plan for social security. The result was a White Paper proposing the establishment of a National Health Service, the objects of which should be:

“(1) To ensure that everybody in the country—irrespective of means, age, sex or occupation—shall have equal opportunity to benefit from the best and most up-to-date medical and allied services available

“(2) To provide, therefore, for all who want it, a comprehensive service covering every branch of medical and allied activity, from the care of minor ailments to major medicine and surgery; to include the care of mental as well as physical health, and all specialist services, e.g. for tuberculosis, cancer, infectious diseases, maternity, fracture and orthopaedic treatment, and others; to include all normal general services, e.g. the family doctor, midwife and nurse, the care of the teeth and of the eyes, the day-to-day care of the child; and to include all necessary drugs and a wide range of appliances.

“(3) To divorce the care of health from questions of personal means or other factors irrelevant to it; to provide the service free of charge (apart from certain possible charges in respect of appliances) and to encourage a new attitude to health—the easier obtaining of advice early, the promotion of good health rather than only the treatment of bad.”

One of the most striking changes from the old attitude embodied in this plan is its emphasis on prevention rather than cure. On this point, the Report states: “Personal health still tends to be regarded as something to be treated when at fault, or perhaps to be preserved from getting at fault, but seldom as something to be positively improved and promoted and made full and robust. Much of present custom and habit still centres on the idea that the doctor and the



hospital and the clinic are the means of mending ill-health rather than increasing good health and the sense of well-being. While the health standards of the people have enormously improved, and while there are gratifying reductions in the ravages of preventable disease, the plain fact remains that there are many men and women and children who could be and ought to be enjoying a sense of health and physical well-being which they do not in fact enjoy. There is much sub-normal health still, which need not be, with a corresponding cost in efficiency and personal happiness."

Another advance which, like the preceding, has received a powerful stimulus from the more progressive members of the medical profession, is the attention the Report devotes to improving the quality of medical care as well as to increasing its availability. Too often the layman regards medical care as a standardized commodity, and thinks of the problem of making it available to the population mainly as an economic one, that is, of making sure that everyone shall be able to pay a doctor through insurance or otherwise. Equally important, however, is the need for making sure that doctors are well trained and that once they begin to practice they have access to the latest discoveries of medical science and are enabled to carry on their work under conditions which will enable their patients to obtain the best that medicine has to offer. This involves many requirements, among which are standardization on a high level of medical schools, hospitals, and clinics, and closer connections between the general practitioner on the one hand, and specialists, institutions for medical education, and hospitals on the other. Characteristic of the more modern medical attitude embodied in the report is the statement that "The aim must be to reduce the distinctions drawn between mental ill-health and physical ill-health."

An extensive reorganization and coordination of medical services will be required to approach the goals in view. It is recognized that they cannot all be reached within a short period. The detailed nature of the reorganization is a matter of debate. It will undoubtedly involve, however, regional supervision of all medical facilities within a given area in order to make sure they are adequate in quantity and quality and have the proper relationship with one an-

other There is also a good deal of opinion in favor of creating a network of local health centers in which group practice will be the rule. The Report proposes that doctors attached to these health centers be remunerated by salaries rather than by fees according to the number of patients which they treat. If the government plan prevails, however, group practice will also be retained on the capitation basis. It is the intention to preserve free choice of doctor within practicable limits and to allow private practice, insofar as it may be preferred to the public system. Naturally, much attention will be paid to the proper distribution of doctors and other medical facilities. It is suggested that the number of patients per doctor be limited, including those patients able to command private practice. It is also suggested that young doctors be required to undergo an apprenticeship before setting up practice for themselves, and to do so if possible in public health centers.

British doctors and their official organization, the British Medical Association, have long accepted health insurance and would not think of trying to return to a regime of wholly private practice. Many individual physicians would favor going even further than the proposals of the government. The B. M. A., however, like all professional associations, has vested interests to protect and is cautious about accepting radically new measures. Like organized medicine in the United States, it wants to safeguard the personal relationship between physician and patient, and is particularly fearful of control of medical service by laymen, especially when exercised through the state, which it fears will be bureaucratic in its methods. As in the United States, the attitude of organized medicine is largely colored by the point of view of the more successful practitioners, whose incomes are derived mainly from private practice.

The report has attempted to conciliate this point of view in numerous ways. It points out that under the new system people will be free either to use or not to use the new services as they wish, and there will be no compulsion for doctors to be a part of it. There will be no interference with existing freedom of choice in selecting a doctor. Physicians are to be allowed to follow their own professional methods without outside clinical interference. The whole service is

to be based on the family-doctor idea. In the central administration, the chief authority will be a Minister of Health, who is responsible in the usual way to Parliament and the people. He will be advised, however, by a Central Health Services Council, representing general and specialist medical practice, medical teaching, hospital organization, and other professional interests. This Council will be appointed by the Minister after consultation with the interests represented, and it may advise the Minister not only about questions referred to it by him, but also on its own initiative. For executive purposes, the Minister will act through another body, to be known as the Central Medical Board. This Board will be composed in the main of members of the medical profession. It will be the employer with whom doctors working for the state will enter into contracts. Thus, while the powers and authority of the democratic state are to be in ultimate control, the administrative policies and the executive practice of the proposed service will be in medical hands.

Needless to say, the plan will involve a large expansion both of medical personnel and medical facilities. A preliminary estimate of the total cost of the scheme to be borne out of public funds is 132,000,000 pounds per year.

#### EDUCATIONAL REFORM

The necessity for public intervention to make sure that the people are well educated is recognized by every modern nation—it has long been accepted in the United States, even by those who dislike state action in other spheres. It may be for this reason that educational reform in Britain was the first item on the reconstruction agenda to be embodied in Parliamentary legislation. Britain has long had governmental regulation of education and a system of state schools, but the latter has not been so widely used as the public school system in the United States. This situation is not traceable to any lack of interest in education on the part of the British people, but rather to the fact that many of its centers of education grew up before social or political democracy had developed, and these old institutions were already strong when the state entered the field.

Approximately half the elementary schools in the country have been voluntary church schools, over which the local education authorities did not have full control. Secondary education has traditionally been dominated by the famous "public schools," like Eton and Harrow, which in America would be called private schools. The chief function of these institutions used to be regarded as providing boys with that type of classical training and social environment which would fit them to enter the great universities and in due course to become members of the ruling class. These schools and the ancient universities for which they prepare of course have their unassailable merits, but it is obvious that the tradition out of which they grew is not a suitable one for determining the type of education for the entire population of a democratic nation. In the early years of the war, the phrase "the old school tie" became a popular expression of dissatisfaction with some of the results of this kind of training in producing national leaders.

More modern schools have in recent decades come into being under both public and private auspices. Technical education has received more attention, and various experimental schools have gained a considerable reputation. There are, however, numerous anomalies and anachronisms in the school system considered as a whole. For instance, while education has been compulsory between the ages of five and fourteen, the Act of 1921 describes the duty of the parent in this respect by stating that he shall "cause that child to receive efficient elementary instruction in reading, writing, and arithmetic." Such language is appropriate, not to modern times, but to the period when it was sought merely to achieve literacy and equip children with knowledge necessary for going to work at the age of ten. In many cases, elementary and higher education in the same area are administered by different local authorities. Classes in elementary schools are often far too large. Transition from junior schools to secondary educational institutions depends upon competitive examination at the age of eleven. Those children who do not pass remain for the most part in upper classes of the schools they are already attending, or are diverted from the main stream of education. In addition, the ability to obtain secondary school educa-

tion depends to a large extent upon the ability of the parents to pay the tuition. Many abler children are crowded out of the schools which are not free by the mere fact that the parents of other children have more ample means.

Education will now be made compulsory to the age of fifteen, and as soon as possible, the school-leaving age will be raised to sixteen. Schools will be entirely free of charge to everyone up to the university level. In the universities, 40 per cent of the students already receive aid from public funds, and the number of scholarships will be increased. All boys and girls who go to work before they are eighteen will receive compulsory part-time education during working hours. They must attend "county colleges" one day a week for forty-four weeks a year and will receive technical, commercial, and general courses. Free nursery schools will be provided for children under five wherever there is a demand for them. In 1919, there were thirteen such schools in the nation receiving state aid, whereas in 1944 there were more than two thousand. Their numbers will undoubtedly be greatly increased and their facilities improved.

The organization of education will be changed. Primary, secondary, and higher education will no longer be subject to separate authorities, but will be planned as a continuous system. In each locality, the local education authority will have the duty of providing efficient education throughout all three stages "for all persons in the area capable of profiting thereby." In order to meet this responsibility, the local authorities must in each case make a comprehensive survey both of the existing facilities and of the needs of their respective areas. They must plan and submit to the National Board of Education complete proposals for primary and secondary schools. When the Board approves a local development plan, it will specify the action which the local authority is required to take in such matters as improving existing schools and providing new ones. A time table will be included covering the necessary steps.

To solve the difficult problem of adjustment between state schools and religious education, the law makes a compromise by offering public grants for both existing and new premises to church schools and other voluntary or independent institutions. A variety

of possible relationships are permitted. In any case, however, generally required standards must be maintained.

The competitive examination at the age of eleven will be abolished. This will free the lower schools from the necessity of adapting their methods to independently determined requirements of the secondary schools. Choice of the type of secondary education which a given child will receive is to depend, not on examination, but on assessment of individual aptitude, with due regard for the wishes of the child and the parents. Decision in this matter will be subject to review at later ages as the child develops. Education will be moulded to the needs of the child instead of the contrary.

Naturally, reorganization of this kind must carry with it careful reexamination of the content and methods of education. The curriculum of secondary schools is the subject of the Report of a Special Committee. Particular attention will be paid to further development of technical, commercial, and art education. "Public opinion," declares the White Paper on educational reconstruction, "will, undoubtedly, look for a new approach to the choice and treatment of school subjects after the war. In particular, consideration must be given to a closer relation of education in the countryside to the needs of agricultural and rural life and, more generally, to creating a better understanding between the people of the town and of the country. A new direction in the teaching of history, and geography and modern languages will be needed to arouse and quicken in the pupils a livelier interest in the meaning and responsibilities of citizenship of this country, the Empire and of the world abroad. Education in the future must be a process of gradually widening horizons, from the family to the local community, from the community to the nation, and from the nation to the world."

The program will make heavy demands for new building, equipment, and manpower. As many as 90,000 new teachers may be required. Conferences have been held with local authorities, teachers, and training institutions in order to prepare for the beginning of the expansion immediately after the cessation of hostilities. The temporary aim is to train 10,000 new teachers a year, with free tuition and maintenance. Substantially increased salaries will be

paid. The normal duration of the training course will be increased from two years to three. In the first few years the cost of the program borne by public funds will be increased by 4,900,000 pounds, and the additional burden is expected to become ultimately 50,000,000 pounds.

## BRITAIN'S DOMESTIC PROGRAM: II

### Rebuilding England, Clubs for All the People, Relocating Industry

#### REBUILDING ENGLAND

THERE will be no more insistent demand by the people of England after the war than that for new and better homes. The need of a housing program has been dramatized by the ruin from German bombing with a vigor which no verbal argument could have achieved. Some months before the buzz bombs and rockets ceased arriving, one house out of every three had been damaged by enemy action, numbering altogether 4,500,000. Much of this damage was repaired, at least for temporary purposes, not long after it occurred. Nevertheless, about a half million houses were rendered uninhabitable, and of these nearly half were completely destroyed or damaged beyond repair.

These raw figures are far from conveying the visual effect of the bomb damage and the impetus it has given to the movement for physical reconstruction of English towns. Most of the destruction occurred in London and other cities in the southern half of England. In these localities, a good deal of it was concentrated within fairly narrow areas. Working class districts which were not far from industrial plants or docks and harbors naturally suffered most. If the Germans had carefully selected for bombing every third house along every street throughout the British Isles, the need for physical reconstruction would still have existed, but the demolition would not have suggested so obviously the opportunity for slum clearance, improved planning of crowded areas, and the redevelopment of metropolitan regions in order to make possible a more hygienic and a higher level of life. As a stimulus to fullness of future living, the



air raids were a blessing in disguise. The disguise was murderous and terrifying when they occurred, but the blessing will cast off its mask in future years.

If the towns in the south of England are to snatch this great good from their misfortune, those in the north of England, Scotland, and Wales, which had suffered equally from the less spectacular but longer endured and equally murderous evils of overcrowding, must receive similar benefits. For while the Germans dramatized the need, they were far from creating it. Even before the war, most cities were badly planned for modern living, and housing for those in the lower income brackets was inadequate both in quantity and in quality. In addition to those who have been bombed out, 850,000 couples married since 1939 want homes, whereas only 150,000 houses have been built since the beginning of the war. Many of these were for temporary use in the neighborhood of munitions plants. Meanwhile, existing houses have been falling to pieces or becoming obsolete from causes other than high explosives dropped from the air. There would have been an urgent demand for mere living space even if there had never been a thought of providing any better physical environment than had previously existed.

In the years between the wars, modern ideas of town planning and public housing had already taken a firm root. Garden cities like Welwyn and Letchworth Village were celebrated throughout the world. Municipal authorities stepped in to help supply the needs of the many families who could not afford to rent or buy new dwellings at the costs prevailing in the private building industry. The national government enabled them to do so by subsidies from the Treasury. It was not merely the public subsidies, however, which made it possible for the authorities to produce far more attractive houses within the reach of wage earners. Planning for sizeable areas which included in single projects not only a considerable number of houses, but parks, streets, and other utilities, both improved standards and reduced costs. Large-scale operation also yielded economies. While public housing was far from supplying all reasonable needs, it did illuminate the possibilities and trained people in new methods of achieving the desired result.

The public housing, available to those in the lower income brackets, stimulated a demand among persons with somewhat larger means for equally good dwellings. It also demonstrated to builders and investors that large-scale construction was a profitable investment, even though relatively low rents were charged. Whereas building of houses had previously been regarded largely as a means of making quick speculative profits, with the attendant possibility of losses, housing construction now became attractive to those who wanted to invest money safely for long periods and at lower returns. Experience proved that wage earners paid their rents regularly, even the risks of unemployment, now modified by unemployment insurance, were not readily transferrable to the landlord. The result was a large volume of private building for those in the lower middle income brackets, occurring during the depression years after 1930.

Other circumstances as well combined to stimulate private building during these years. The number of separate families in the nation reached its peak, consequent upon the peak in the number of births in 1903. At the same time the automobile and the improvement in public transport increased the desire for suburban life. Meanwhile the purchasing power of the salaries and wages of those who remained employed was increasing because of the fall in the cost of living.

Public housing, together with its secondary result in the private building boom, also had an indirect consequence of great importance. The depression of the thirties was international in its effects, and Britain was not exempt. She suffered particularly in the industries dependent upon export, like coal, steel, and cotton textiles. Nevertheless, she did not experience to anything like the same extent as the United States a decline of employment or of the national income. It seemed clear to almost every observer that the activity of building was largely responsible for this relative good fortune. This experience helped to establish acceptance of the principle that construction can act as a balance wheel to moderate the swings of boom and depression. It is now believed by almost all that a large housing program is not only desirable in itself, but is a primary means of helping to maintain full employment.

The first task is to provide temporary houses to take care of those who have been bombed out. This is being done by factory prefabrication of elements which can be erected quickly and with the least possible labor. These temporary structures are well designed and serviceable, and probably embody better living conditions than those to which many of their occupants have been accustomed in the past. While everyone admits the urgency in providing shelter, there are two schools of thought concerning the emergency housing program. One argues that the main emphasis should be laid on temporary housing because of the heavy demands which a sufficiently large permanent housing program would make upon the labor supply and materials in the immediate postwar years. The other fears that temporary housing will actually be permanent, as it usually has been in the past because of the chronic housing shortage, which has made it impractical to tear down even the most obsolete structures as long as families were occupying them and there was no other living space available. This body of opinion favors limiting the emergency housing to cases of dire necessity and getting on as rapidly as possible with the task of permanent rebuilding.

So great is the task, in any case, that the only major differences of opinion concern the possible speed with which it can be performed. Before the war, approximately 1,000,000 men were employed in construction and 15 per cent of them were without jobs. In the last five years of peace the industry, devoting about half its resources to housing, turned out an average of 360,000 new dwellings a year. The Coalition government planned to increase the labor force in building to 1,250,000, to keep it steadily employed, and to produce 500,000 new houses a year under full peacetime conditions. The complete program calls for 4,000,000 new homes within ten years as compared with the same number built in twenty years between the wars.

In this program, mass production of materials in factories will have a much larger place than before. The dimensions and qualities of housing components are being standardized and the number of types of fittings is being reduced. Employment will be stabilized in the manufacturing industries concerned, as well as in construction

itself. Production will be scheduled so that, in Lord Woolton's words, "All the various parts come forward at the right time to match the progress of house building." The design and construction of the houses will be of a better quality than before the war, although few radical departures in appearance are likely to be made.

The English are not going in for the "ultramodern" merely as a fashion. Particular attention will be paid to the layout and to better heating, laundry facilities, and closet space. Standardization of components and fittings will not lead to any undesirable lack of variety in the finished product, since the parts can be combined in any number of ways. There is no aesthetic merit in having hundreds of different kinds of windowframes or hardware and plumbing fixtures, many of which are unbeautiful in themselves and present a meaningless confusion of choice to the householder. Extensive studies have been made of the best kinds of layouts for various types of location and for the use of the various sorts of family units. Experimental houses have been set up and subjected to the criticism of thousands of people of the sort who will occupy them. Some have actually been lived in for a test period.

The Conservative Party, calling for a 70 per cent increase in the emergency program, advocated the building of 850,000 houses in the first two years. A Committee of the Liberal Party, not to be outdone, demanded the building of 4,000,000 permanent houses in the first five years of peace instead of in the first ten, as the government suggested, and the production of at least 750,000 houses annually for rental. Such proposals must be understood more as a reflection of the eagerness of politicians to respond to popular urgency than of sober possibilities.

Before the war, public housing was so extensive that one-twelfth of all the dwellings in the country had been built by municipal authorities. After the war, the housing subsidized by the national government and built by municipalities will make such heavy demands on the capacity of the industry that there will probably be little, if any, labor and materials available for private speculative building. The economic effects of a public housing program of this magnitude are not being ignored. The government will have a virtual monopoly

in the use and financing of the half or more of the construction industry devoted to housing. If one adds other types of public building, such as schools, hospitals, community centers, and offices, approximately two-thirds of the expenditures for construction will be channeled through governmental agencies. This fact offers a real opportunity for the stabilization of production and employment at a high level. It will, however, raise its own problems. Some are questioning whether the public demand for rapid rebuilding will not lead to the allocation of so large a share of the nation's resources to this activity as to hamper the needs of export industries or other necessary parts of the total economy. Many building materials, including timber, must be imported, and this fact has its bearing on the problems of international trade. Finally, it is asked what is going to happen to the building industry and to the stability of the entire economy when the program is completed. Will there then be a slump in housing construction? There are possible answers to all these questions, but the working out of any policy depends upon careful planning of the economy as a whole.

It has long been recognized that a good housing program is not merely a matter of building houses, but also of planning their environment. Most towns in England, like those in the United States, already have planning authorities. There have also been tentative studies in regional planning. Now, however, the planning function is taken much more seriously and must be applied on a more extensive scale. Even while air raids were raining bombs on London, the architects started work on a fifty-year plan for rebuilding the whole metropolitan region. Improvements will be made in terminals, industrial centers, the layout of streets, provision of open spaces, and the opening of vistas, so that the city as a whole will be both more convenient and more beautiful. The plan was submitted to the public for criticism before final action. Similar activity has been going on in many other cities. In addition, Parliament has created a national Ministry of Town and Country Planning and has given it extensive powers. It is to supervise and coordinate the work of local planning authorities in the interest of a balanced regional and national development. It can step in and actually do the local planning where

there is no local authority or where that authority does not fulfill its function. It also has jurisdiction over land uses in rural areas. Britain has therefore gone in for coordinated land planning on a comprehensive scale.

In planning whether a given piece of land shall be used for low-cost housing, or streets and parks, or industry or agriculture, the authority makes decisions which would greatly affect land value one way or another, if the land were allowed to be bought and sold in the free market. Such shifts in valuation either are profitable to private owners, or, if they cause losses, require compensation to be paid. In either case, the cost of development to the public authorities is increased, and high land values may interfere with good planning. A universal planning program therefore requires measures to obviate the confusing obstacles inherent in private land ownership. The government in 1941 appointed a committee to investigate this subject and make recommendations.

The Uthwatt Committee took its work seriously and made an analysis which went to the roots of the problem. One important question concerns undeveloped land in the neighborhood of cities. Because of the growth of suburbs, fringe land of this kind is often profitably improved by private developers. Nevertheless, under good planning, it sometimes should be held for agricultural use or for a green belt providing recreation and other amenities. Under the laws existing before the war, a planning authority could prevent the development of land of this kind by its private owners, but was obliged to compensate those owners for the loss of their expectation of profit. More is involved than a payment to any single individual. If the authority reserves a large tract of this kind, it must pay compensation to the owners of all the land in question, although not all the land is ever likely to be developed and a large part of it would probably not be improved in the near future even if no restriction existed. Nobody can predict with certainty on what parcels the enhancement of value would be likely to settle, and so it is impossible to compensate some owners more than others. The aggregate payments to all the owners will therefore increase the total land value much more

than it would have been increased if the planning authority had not intervened.

Still another obstacle existed under the prewar laws. When any given piece of land is taken out of the market by restrictions on development imposed by planning authorities, the total demand for land which may be developed is not thereby decreased. If the prospective purchaser who wants to build houses or a factory cannot buy in one place, he presumably will do so in another. The owner of the property he finally purchases thus profits as a result of the original action of the public authorities. Theoretically, the increase in value taking place in this way is recoverable by the municipality in question. Actually, however, it is impossible to trace such shifts in value from one piece of land to another with enough precision so that public recovery can be made. In order to remove both this difficulty and that pointed out in the preceding paragraph, the Uthwatt Committee recommended that, in the case of all undeveloped land in the neighborhood of towns, the state should immediately take over rights of development. The value of the rights so acquired would be determined on the basis of a single fixed sum, representing a fair value to the state of the developmental rights taken as a whole. Compensation to the owners would then be made by dividing this sum in proportion to the estimated development value of their individual holdings as it stood in the spring of 1939, before the war began. The Committee also recommended that, if any of this land were subsequently developed, the state should purchase it at the time of its development, if necessary by compulsion. If development by a private individual were permitted, the land should then be leased to him.

With regard to land within towns and cities, the Committee found that a somewhat different problem existed. The planning authority could do little unless it had the power to "cut through the tangle of separate ownerships and boundary lines." Only thus could cities be replanned in sufficiently large units. Accordingly, the Committee recommended that the planning authority have the power to compel owners to sell all of any areas needing redevelopment, at

prices not exceeding the level of the spring of 1939. A final recommendation was intended to take care of the increases in value accruing to private land-owners as a result of restrictions placed on other land by the authority. It proposed a tax of 75 per cent of annual increases in value of all developed land. The net result of these measures taken together would therefore be to prevent loss to the public from rising land values as a consequence of the great rebuilding program. Any land needed by the development authorities or likely to be needed by them would be frozen at its prewar value or slightly above.

The National government to which this report was made was heavily weighted with Conservatives, and the landowning interests in Britain exert a great influence on the Conservative Party. It did not accept the Uthwatt recommendations, but issued a White Paper making proposals of its own which are likely to seem radical to real estate interests in this country. Local authorities would be allowed under this scheme to purchase any land they needed for redevelopment, with the approval of the Minister of Town and Country Planning. The price of such land would be fixed at its 1939 value for a period of five years. No private owner could develop his land without obtaining the consent of the planning authority. Whenever such permission was granted, the owner would have to pay back 80 per cent of the increase in value resulting from the permission to develop his land. The same charge would be applied to land already developed, if it were redeveloped. Payment of compensation for refusal to allow private owners to develop their land would be on the basis of prewar value. This payment would be made from a central fund which would receive the 80 per cent tax for the improvement rights granted.

Even the extreme Right thus recognized the necessity of preventing the building program from being obstructed by an inflation of landowners' profits arising from the heavily increased demand. The Labour Party was originally willing to accept the Uthwatt proposals, but now has officially adopted the program of state ownership of land. It will probably push this program to the fore if private land ownership seems to be delaying or making more costly the housing



program. It may, however, compromise by exempting agricultural land, to which a somewhat different set of considerations apply, insofar as this land is not needed for urban redevelopment.

#### CLUBS FOR ALL THE PEOPLE

Even before the war, observers of English social conditions recognized a growing need for better opportunities for community life. The few who had the larger incomes had long had leisure, country estates, and clubs. Now the rank and file of the population received a sudden access of leisure through shorter working hours. While many of them made good use of this extra time in pursuit of individual hobbies or by family excursions, the facilities available for social uses of leisure were inadequate in both quantity and quality. Such as existed were provided largely by commercial enterprise like the movies or amusement parks. There were far too few places for normal social intercourse, meetings, education, and recreation.

While older villages in England had had their own forms of community life, the bulk of the population lived either in larger cities or in newer developments which had few roots in the past. Workers migrated to the sites of new industries, while many thousands moved from the centers of cities into new suburbs. In these places, persons with different backgrounds and traditions were cut loose from the associations with which they had been familiar and found themselves in the midst of strangers with whom they had little in common. There was obvious need for some initiative to help the people get acquainted with each other and to provide organic life for the community.

The earliest recognition of this sort of need occurred in the slums, where settlement houses and various types of community centers had long been performing a valuable service. But the possession of a somewhat higher income and the occupation of a sanitary house in a modern suburb does not decrease the need for social contacts and creative recreation. The belief has become widespread that the organization of community life should not be confined to the abnormal conditions of slums, where it has customarily been a philanthropic undertaking. England intends to abolish slums in any case.

The Report of the Ministry of Education on this subject concludes, "A community center should be regarded as an essential amenity of a normal community living in normal circumstances. We have reached the conclusion that what may have been no more than desirable in the past will become urgently necessary after the war."

The war has greatly increased the need for social facilities and has also stimulated the demand for them among those who have had a taste of activity in common with their neighbors outside of working hours. Populations have become more mixed than ever before. People of both sexes, of all ages, and from every level of society have been brought together in essential war work of innumerable varieties. Common danger, plus the social and economic leveling which has taken place, has broken through old barriers and reticences. Whereas Englishmen used to be shy about talking to strangers, they now converse with little restraint whenever they are thrown together. They like the sense of sharing common interests and tasks. Millions of people have acquired a sense of belonging and a feeling of being wanted and valued which they never had before. They also appreciate the stimulus received from human contacts in larger circles. This is particularly true of the young, who have been brought together and organized for the war effort by special agencies.

The tendency toward enhancing communal life is seen nowhere more vividly than in the changes the war brought to the "pubs." For many years the public house, where men gathered for their drinks and their game of darts, has been known as the poor man's club. Because, however, intoxicating liquor was sold there, it was looked upon askance by many respectable members of the community. During the war, its atmosphere radically changed. The pub is now frequented by both men and women and is the customary meeting place for residents of any given locality, regardless of occupation or income status. There people learn to know their neighbors and discuss the questions of the day. There is no better center in which to sample prevailing public opinion. The opportunity for drinking too much has been greatly reduced by the extreme shortage of spirits and the virtually complete absence of imported beverages of all

kinds. Soft drinks are always available, while the standard order is for one of the varieties of English beer, which contains an almost negligible percentage of alcohol. While there is wide difference of opinion as to whether the new community centers, to be provided by public agencies, should permit the sale of alcoholic beverages, it is probable that in many localities they must do so if they are to compete with the pub in popularity.

The replanning and rebuilding programs offer a general opportunity for the provision of community centers. They will, of course, be open on equal terms to all members of the community. It is the aim to avoid like the plague the sort of institutional atmosphere which is too frequently associated with philanthropic undertakings designed for "uplift." The people must have a sense that the center belongs to them, and to this end moderate dues or fees will be charged and the administration will be democratically organized. The facilities provided will be of great variety and adapted to the needs of individual localities. There will be recreation rooms, meeting halls, a canteen, opportunities for music, drama, lectures, and discussion groups. The uses which will be made of such a center will depend largely on the spontaneous suggestions of the people themselves.

Wherever possible the center will also serve as a country club, with such things as tennis courts and bowling greens. It is planned to have a separate center for young people in the immediate neighborhood, since the community center itself is regarded as primarily an adult institution, although families may wish to take their children when they go. A typical description of the accommodations recommended for a population of five thousand to ten thousand is as follows:

"A large hall, with stage and dressing rooms, a gymnasium, a small all-purpose hall, a large common room, kitchen, two large craft rooms with stores, games room, three quiet rooms, a library and reading room, accommodation for the warden, entrance hall, lavatories, cloakrooms, passages, heating chamber, stores, cycle accommodation, etc."

Naturally, skilled staffs will be necessary for institutions of this extent, but they will be kept to a minimum in numbers and much of the work will be voluntary. The community centers will be a specific responsibility of the local education authority, although the physical facilities will frequently be provided by the housing authority in consultation with the experts in education

Discussions among economists and politicians frequently sound as if the task of improving levels of living were simply one of providing more physical goods and distributing them more equitably. Food, shelter, clothing, and less fundamental kinds of goods are indeed important. Nevertheless, the attention devoted in England to such subjects as community life indicates that as much emphasis is being placed on the quality of living as on its physical basis. Improvement of this kind also makes its economic demands, but it is often possible to obtain a very great enhancement of real satisfactions with a relatively small expenditure for things that must be bought with money.

#### RELOCATING INDUSTRY

A comprehensive planning and rebuilding program would necessarily involve decisions as to where factories should be built even if there were no special reasons for relocating industry. Within a town or countryside, they must have the right relationship to dwelling, recreation, and agricultural areas as well as to sources of materials, markets, and transportation facilities. They ought to be correctly distributed among regions for the sake of the prosperity of populations as well as for considerations of both industrial and military strategy. In Britain this necessity is reinforced by the history of industry and employment before the war. After 1919, permanent unemployment settled down like a blight in certain regions which came to be known as "depressed areas." The export market for coal declined, and this affected Wales and northern England. The surfeit of world shipping brought distress to the shipyards on the Tyne and the Clyde with their attendant industries. Cotton textiles suffered in the Midlands. Meanwhile, newer and more prosperous in-

dustries selling chiefly to the home market sprang up in southern England and particularly in the counties within easy access of London.

It would have been better both for the depressed areas and for the economic balance of the country as a whole if most of these new plants had been located where the bulk of the unemployment existed. Workers, particularly English workers, do not readily move from their homes in order to seek employment in other localities. They were always expecting their jobs back again. They had small means to bear the expenses incidental to transportation and setting up family life in unfamiliar surroundings. Those who did follow the factories were uprooted and set down in an environment in which they did not feel at home. In most cases, no compelling reason existed for establishing the new plants where they were actually set up. England is a relatively small country with an excellent transportation system. Relative distances from materials or markets have little effect on costs or competitive advantage. It is believed by some who have studied the subject that the drift of industry into the south of England did not result from economic considerations but rather from such motives as the desire of executives to live closer to the metropolis.

During the war, the munitions plants constructed by the government were distributed with some regard to this previous unbalance. However, the necessity for speed plus military considerations prevented the choice of location entirely according to standards which ought to be applied in peace. Many of the war plants, too, will not be well adapted for permanent use in peacetime industry. It is therefore one of the chief aims of reconstruction to make a fresh start on the job of industrial location.

Even during the later phases of the war something could be done by administrative action. Whenever the need for the product of a war plant came to an end, the disposal of the plant was turned over from the Ministry of Production to the Board of Trade, which is the official department having jurisdiction over this problem. Manufacturers wanting facilities for civilian production applied to the

Board of Trade for suitable plants. There were many more applicants than plants available. Those who would consent to locate in the areas most needing development were given priority.

Somewhat later, legislation was prepared to govern the policy of the government in this respect. The negative conception of "depressed areas" has been abandoned. Regions in which it is desirable to promote industrial expansion have become known as development areas, and are carefully defined. The Board of Trade was given the power to add to these areas or subtract from them. Within the development areas the Board of Trade can encourage industry by several types of measures. It can acquire land for building factories and can itself build the factories. It can make loans to other non-profit agencies for the same purpose. It can lend money to anyone who starts a new undertaking in a development area. It may even make annual grants to meet the payment of interest by such a person. Loans or grants may also be made for the purpose of public improvements which would be of use to industry, such as roads and railroads, docks and harbors, power stations, housing, and health services.

In addition to using these positive measures to favor the development areas, the Board of Trade can discourage the settlement of industry in the more congested regions. Anyone who intends to build a new factory of over 3000 square feet must notify the Board of Trade. The Board will thus have advance knowledge of new factory construction of any importance, and may intervene to influence the choice of location. It will have specific power to forbid the erection of new plants in areas where further development "would be seriously detrimental to the proper distribution of industry." These areas are not defined in the bill but are to be outlined by orders of the Board of Trade itself, each of which will take effect only after Parliamentary action. This power is not regarded as drastic enough by those who favor a fundamental attack on bad industrial location, since there may be delay in choosing the forbidden areas and the pressure of local interests may cause Parliament to refuse to confirm orders of the Board. Moreover, there are no restrictions on the repair of war-damaged premises. It may be that stronger legislation will be

adopted. In any event, the Board of Trade will have additional powers as long as building materials are so scarce that building licenses must be obtained before any project is undertaken. Through this mechanism the Board can give priority to building in the development areas, and the demands of the housing program on construction resources are such that this power is likely to be effective for a long time.

Two other reconstruction agencies created for a different purpose may also be utilized in support of planned industrial location. The government has created two Finance Corporations to serve the needs of business for capital and credit in the reconstruction period. One of these is to lend money to large enterprises, while the other will specialize in the necessities of smaller undertakings. The projects are somewhat similar to the Reconstruction Finance Corporation in the United States, originally adopted for the emergency of the prewar depression. They will, however, not be purely governmental undertakings, but will include banking participation. Even if the banking system were not to be nationalized, it is closely integrated with governmental policy, and a mixed system of this kind can operate virtually as if it were an agency of the state. Naturally, the Finance Corporations ought to have a close liaison with the Board of Trade, and may thus in the granting or refusal of loans help to implement its policy of industrial location.

Another important aspect of land planning is the location of agriculture. In recent years some of the best agricultural land in England, made fertile by long care, has been taken out of production by suburban developments or new industrial plants. This matter must naturally be of great concern in the future, not only to the agricultural authorities but to the Ministry of Town and Country Planning, the local planning authorities, and the Board of Trade in exercising its control over the location of industry. Since Britain before the war had to import 60 per cent of its food even to provide a level of nutrition which was on the average inadequate, and since after the war there will be a serious problem in purchasing abroad even as much as was imported before it, the conservation of good land for agricultural purposes must be a major consideration. The

general subject of agricultural reconstruction has been briefly summarized in a former chapter, but here it should be noted that the requirements of farming are very much a part of the total planning picture.

In the United States regional planning has paid great attention to river systems, with their sources in forested country and their management at lower stages for such purposes as navigation, hydroelectric power, flood control, irrigation, and prevention of erosion. England's situation is somewhat different, because her different topography and rainfall make the damage by erosion much less serious and create little need for irrigation or flood control. Nevertheless, much attention is being devoted to reforestation, both because of the desires for wild recreation areas open to the public and because of the need for augmenting the domestic supply of timber. There are also undeveloped sources of hydroelectric power which are likely to be utilized, especially in view of the decline of the coal industry. There is projected an extensive hydroelectric development in Scotland which is often compared with the TVA. Such considerations will surely form a part of over-all planning.

In planning both towns and countryside, the English people place a high value on the intangible and uncommercial amenities of life as well as on mere economic efficiency in the use of resources. It would be more important to many an Englishman to be able to take a walking trip through unspoiled country than to have a few extra pairs of shoes or even a high-powered automobile. An interesting example of this attitude came to light before the war with Germany was won. The government had acquired great tracts of land for military purposes, and a bill was introduced governing the use of this land at the end of the war. There was no complaint whatever that the government might not exercise sufficient consideration of private or commercial interests. Widespread criticism of one of the clauses of the bill arose, however, on the ground that it might permit the government to close footpaths, stiles, and country lanes which in the long past have been a heritage of the wayfaring pedestrian and open for public use.



## JOBS FOR ALL

THE most ambitious part of the British reconstruction program is the decision to provide a job for everyone who wants to work for wages, and to make certain that no important amount of unemployment is ever again suffered by the British people. This project, like those described in the preceding chapters, is not one advanced merely by a particular school of theorists or a single section of the community. Both the desirability of the objective and the possibility of attaining it are accepted by all political parties and by nearly all sections of the public. The Coalition government, maintained for the prosecution of the war, in which Conservative Ministers were dominant, issued through the Ministry of Reconstruction a White Paper containing an explicit pledge to maintain a high level of employment. This is the first time in history that the government of a great capitalist country has formally undertaken such a responsibility. It is understood that the pledge will be binding on future cabinets, no matter what their political complexion. The Labour government which succeeded that headed by Winston Churchill naturally will take the pledge even more seriously. It is taken for granted that any government which disregarded this promise, or indeed any government which failed in any substantial measure to fulfill it in the future, would be unceremoniously thrown out of office.

The change in the climate of opinion which led to this daring commitment is made up of a number of factors. One, of course, is the memory of the sufferings resulting from unemployment in past years and particularly between the wars. More important, however, is the growth of the conviction that depression and other causes of a shortage of jobs are not decrees of an inexorable fate which are irremediable by human intervention. The lay public has observed that during the two World Wars there was not only full employment, but an actual shortage of labor, due obviously to governmental

demand for goods and manpower. It reasons practically that there is just as much human need for the products and services of labor in peace as in war, and that the government can, if it will, organize this demand and make it effective. The economic theorists, in turn, have reached substantial agreement concerning the main causes of unemployment and believe that the application of their conclusions through the agency of the government would substantially diminish if not abolish it. Thus inertia no longer has the support of the authorities.

Finally, it is understood by all intelligent citizens that the other items of the reconstruction program would lack their necessary basis unless the people and resources of the country were kept busy producing a sufficiently large volume of wealth and welfare. The burden of unemployment insurance, for instance, would be much heavier if the total of unemployment were large, and the government would not be able to collect so much in taxes to pay its share of the cost. More people will be undernourished or ill and consequently in need of the medical attention which will be provided by the National Health Service if unemployment robs many of the means to sustain a decent standard of life. The rebuilding of cities on a better scale would be incompatible with city populations deprived of their earning power, and hence unable to rent better houses or to pay the taxes necessary to finance the local and national governments.

The commonsense belief that it is possible to find work for everyone who wants a job is reinforced by contemplation of the reconstruction plans themselves. During the war, nobody had enough of anything. People were told that they must continue to get along with insufficient living space, clothing, and food—not to speak of amenities such as new automobiles, furniture, radios, and innumerable modern inventions—until the soldiers were no longer needed at the front and the munitions workers could cease their production of warplanes, tanks, guns, and shells. If, it is reasoned, we are to build new houses at least twice as rapidly as ever before, if we are to make up our shortages of clothing and be able once more to eat what we like, if, in addition, we are to find in the markets all the other things we want, and if besides we are to have many thousands

more of teachers, nurses, and doctors than before the war, how can there possibly be any shortage of jobs unless the government is guilty of monumental blunders or private interests in control of money and production go on strike? This commonsense judgment is supported by competent students of the subject. It will take perhaps five or six years at the least to fill the backlogs of demand and get back to a normal peacetime basis. After that, commonsense reasons, we should utilize any excess labor power either to improve the material level of living or to shorten hours of work in the interest of greater leisure. There is no need to permit unemployment to recur.

The theoretical basis of the conviction that any substantial amount of unemployment can be avoided is far more intricate and detailed, but can be understood without too much difficulty by those who have no technical training in economics. In order to trace the way in which theoretical reasoning has caught up with common sense, it is necessary to summarize briefly the course of economic thought in England on this question.

The classical theory did not account for the existence of a large and continuous volume of unemployment or the recurrence of cyclical depressions. Its basic tenet was that an economic order characterized by free exchange and competition in search of profits would tend automatically to approximate an equilibrium of demand and supply in every part of the market. This would be as true in the labor market as elsewhere. Unemployment would be merely an indication that the demand for labor was running behind the supply. In these circumstances, wages would fall until the relative cheapness of labor stimulated the demand and the surplus of workers disappeared. In this type of analysis, any temporary lack of balance between demand and supply was accounted for on the basis of some imperfection in competition or some friction or obstruction in the mobility of labor or capital. It was believed that impediments of this nature would be short lived and of little moment as long as the free play of economic forces was allowed to persist.

Economists, like others, could not fail to observe the fact that the experience of the world was not so happy as their theory might have led them to expect. There actually were frequent slumps of trade

and employment, recurring with more or less regularity. There were also persistent pockets of unemployment which did not disappear even during the most active boom. The problem became so serious that great political pressure arose to do something about it. A Royal Commission on the Poor Laws and Relief of Distress, appointed by a Conservative government, reported its conclusions in 1909. It recognized the existence of a large volume of unemployment. It did not, however, depart from the classical theory that on the whole the demand for labor kept pace with the supply. It accounted for the strange fact that the supply was always larger than the demand, even when employment was at its highest point, on the ground that obstructions existed in the mobility of labor and that the labor market was not properly organized.

Almost every industry was found to have a tendency to maintain a reserve of workers somewhat larger than its total need, from which it could hire at will for brief periods. For instance, the dockworkers were kept in the neighborhood of the docks by the chance of obtaining a few hours' work from time to time, although if they had been offered a regular wage no larger than their average weekly earnings, they probably would not have accepted it. Though other industries did not exploit casual labor to the same extent, an essentially similar condition existed in building and many branches of manufacturing and mining. The remedy for this condition was sought in a perfectly conventional device. Commodities were no longer sold from door to door, but were dealt in on exchanges where all elements of demand and supply had a common meeting place, and discrepancies could quickly be ironed out in the natural course of buying and selling. The investigation therefore led to the establishment of a system of national labor exchanges where workers could apply for jobs and employers could apply for men. It was expected that this better organization of the market would minimize the evil.

Another cause of unemployment was recognized at the same time—that is, the depressions of trade and business. Though there were many theories to account for the business cycle, the majority of economists regarded this also as a result of frictions or extraneous elements which interfered with a normal tendency toward equilib-

rium Perhaps the most popular theory held that the principal cause of fluctuations was to be found in the realm of money and credit, and so that a proper currency and banking policy would promote stability. There was undoubted truth in this theory, as well as in the theory that casual unemployment was brought about by poor organization of the labor market. Neither, however, contained anything like the whole truth, and reforms in both realms failed to eliminate serious unemployment. Indeed, the evil became much worse after 1914 than before.

Aside from the cyclical depressions which brought unemployment in 1921 and in the years following 1929, the chief cause of joblessness in England appeared to be the decline of the export trades, particularly coal, shipbuilding, and cotton textiles. This resulted in chronic and, for many workers, permanent unemployment in specific localities. In the previous chapter, we have referred to these depressed areas. The classical type of analysis believed this phenomenon also to be due to the lack of mobility of labor, and was inclined to regard the joblessness of the workers concerned as their own fault because of a stubborn refusal to go where work might be obtained. There was some criticism of the effect of unemployment relief, because it helped to maintain workers in idleness in localities where there was little hope of their ever obtaining jobs. This point of view was later found to be superficial in the extreme. Workers unemployed in one industry often needed at the very least retraining in order to find employment in others. They could not be moved about as easily and with as little human loss as bales of cotton or pounds of tea. And there was no real assurance that, if all the unemployed had moved out of the depressed areas, there would have been enough jobs for them elsewhere. The ultimate conclusion was that there was little hope of remedying this situation by attempting to enhance the mobility of labor.

Another aspect of the classical theory of unemployment received special emphasis at the time because of the slump in export industries. This was that the chief difficulty arose from insufficiently low wages. It was logical to suppose that the market for exports would be increased if lower prices could be charged, and that the chief ob-

stacle to lower prices was rigidity in labor costs. Naturally, labor bitterly opposed this analysis of the prevailing unemployment. The controversy was intensified when Britain went back to the gold standard at the prewar parity of the pound. This brought such a high exchange value to British currency that the internal pressure for lower prices and costs was redoubled.

About the only tangible result was a series of bitter strikes, followed by forced departure from the gold standard. Prevailing British opinion finally veered to the conclusion, not that wages ought to have been reduced, but that it had been a mistake to reestablish the gold standard, especially at such a high valuation of the pound. Those who investigated carefully the specific difficulties of the export industries in question came to the conclusion that their troubles could not be traced mainly to high wages, but to other developments such as the growth of textile manufacture of the cheaper grades in India and other former markets, the world-wide surplus of shipping resulting from the war, the relative exhaustion of the more highly productive coal mines, and the development of new sources of fuel in other nations.

In the meantime, another type of basic analysis of the theory of unemployment was arising. Numerous economists outside the classical tradition had held that the demand for labor would not necessarily equal the supply, even if no elements of friction existed in the labor market. Prominent among these in recent times was a British writer, J. A. Hobson. This thesis was taken over and developed in great detail and with a rigorous theoretical apparatus by an academic economist, J. M. Keynes, now Lord Keynes. Mr. Keynes sought the explanation both for trade slumps and for more persistent unemployment in some factor which would explain a deficiency of purchasing power in relation to the supply of goods and services which labor could produce if it were fully employed. He agreed with the classical economists to the extent of assuming that, if all the money payments received by everyone were spent again by the recipients, there would be no interruption in the flow of purchasing power, and the total demand for goods and labor would equal the market supply.

He did not take it for granted, however, that full spending of the incomes and payments received automatically takes place.

It had long been obvious that some of the money received both by individuals and by business establishments is not spent in the ordinary sense of the term, but rather is saved. When money is saved, it is held out of the stream of circulating purchasing power. The traditional theory had been that money saved was invested in new capital goods and thus was really spent just as much as if it had been used to buy food or clothing. Thus, savings banks or insurance companies loaned the money left in their charge, to finance the construction of houses or railroads or public works. Business concerns which laid aside surpluses and reserves used these funds to buy machinery and buildings and to expand their operations. Mr. Keynes made the point that the decisions of those who invested were independent of the decisions of those who saved and did not necessarily follow the same course. People save out of habit or prudence, but people invest because of their belief that an opportunity for profit exists.

Traditional theory assumed that as much would be invested as was saved because of the interaction of demand and supply, as in any other market. When people wanted to invest more money than was available in the reserves piled up by the savers, the rate of interest paid on savings would rise until savings were increased, or until the opportunity for profitable investment was so small that investment declined. When, on the contrary, more was saved than could be utilized by businessmen and governments, the rate of interest would fall and saving would be correspondingly discouraged. Mr. Keynes replied that changes in the rate of interest were not large enough or prompt enough in their effect to produce the desired equilibrium. The "propensity to save" depends on many things other than the current rate of interest, and so does the profitability of investment. In general, there is a tendency for people to lay aside a certain proportion of their incomes year in and year out, whereas new spending for investment purposes varies widely from one period to another. In consequence, the total amount of money spent by

both consumers and investors may from time to time be too small to keep all the wage earners employed, or it may, in fact, be insufficient for relatively long periods.

An attempt has been made to refute the Keynes type of theory by figures which seem to prove that over a long period the amount saved and the amount invested do equal each other. One comment on these figures is that as a matter of fact they usually measure the same thing, that is, those savings which are invested. Good statistics are lacking to measure the amounts of money actually withheld from circulation by the savers. Another comment is that the reply misconceives the nature of Keynes's thesis. He never contended that large amounts of money were actually piled up in savings hoards which remained unused for any long period. What happens in our dynamic economic process goes the other way round. At a time of relative prosperity, let us say that a given amount is being saved and the same amount is being invested. Suddenly, investment falls off because of a drop in profits or expectation of profits. What is now being invested is therefore less than what was previously being saved. The diminution in investment, however, causes a falling off in incomes, and this in turn reduces the amount of savings. People may be laying aside as large a percentage of their incomes as before, but the incomes are smaller. What is relatively stable is not the total volume of savings, but the "propensity to save." A diminution in investment thus reduces total spending, even though the volume of savings may be reduced as investment falls.

It should be understood that, by the term investment, Keynes does not mean the mere purchase of existing securities, or the passing of securities from one hand to another, but the spending of money for new capital equipment or the labor required to produce it.

Thus, by a long course of reasoning, the mathematical intricacies of which are omitted in this oversimplified summary, Keynes arrived at the same conclusion which had resulted from popular observation of economic events. It also is in accord with the statistics we now have covering employment, consumers' income and savings, additions to capital investment, and business conditions in general. When there is a large amount of new investment in construction, or



when the government spends large amounts of money for the kind of investment needed in war, employment is relatively high. But when the building boom falls off, or when the government ceases to borrow and spend for war purposes, unemployment is likely to supervene. High employment accompanies a high level of total spending, and low employment accompanies insufficient spending.

After long debate, the Keynes analysis has been almost unanimously accepted by British economists. That does not mean that they all accept all its details or that they all agree on the appropriate remedy. The analysis itself leaves open a choice among a number of proposed remedies. Furthermore, it does not preclude the possible importance of other causes of unemployment such as lack of labor mobility or frictional obstructions of other kinds. When we say that economists are agreed upon the theory, all we mean is that they accept the proposition that the total demand for labor may, for shorter or longer periods, be less than the supply, and that an immediate cause of this disparity is a variation in the total of new investment which differs from the course of the propensity to save.

One possible remedy for that unemployment which results from insufficient investment is an increase in spending by government to make up for the deficiency. If the government acquires the money for this purpose by taxation that reduces the amount the citizens spend, no net increase in total spending occurs and the object is not achieved. If the government borrows the money in a way that reduces spending, the action is similarly futile. But if the government raises the money by taxes levied in such a way that it taps incomes not all of which would be spent—in other words, if it taxes savings—it does produce a net increase in expenditure. A similar increase is produced if it raises the money by borrowing it either from commercial banks or from those who would otherwise save it. "Deficit spending" is a name for the policy of a government when it spends to create employment, and borrows the money from banks, or large financial institutions, or wealthy individuals who customarily save a large percentage of their income. It is to be noted that under many circumstances the government can create employment without borrowing, by the process of spending the necessary funds from in-

creased taxation, provided this taxation does not bear upon those who customarily save little because their incomes are relatively low.

There has been an immense volume of controversy, in the United States particularly, about the supposed dangers of deficit spending. Persons who oppose it do so either because they have the habit of thinking that a national budget, like a personal budget, ought always to be balanced if it is in any way possible to equalize income and expenditure, or because they have a bias against enlarged governmental activity, believing that it inhibits private enterprise. These arguments are usually answered by the contention that, if government spending increases employment and the total national income, no one need worry about the increase in the government debt. It is the proportion of the government's interest burden to the national income which is significant, not the absolute size of the debt itself. It is further argued that private enterprise tends only to gain from a governmental policy that prevents depression and enlarges the markets for the goods business produces.

In England, the arguments of those who support deficit spending have proved convincing to most students. There is little more worry that the government will endanger its fiscal stability by borrowing money and spending it in ways which increase the income of the nation than that a growing private corporation would be endangering its future by selling shares or bonds to investors and using the proceeds to enlarge its plant and its output.

Deficit spending by government is not, however, the only remedy open. Another possibility is governmental intervention to stabilize the flow of private investment. Such intervention may be either mild or drastic. Still another possibility is to influence the use of money by individuals so that a larger proportion will be spent and a smaller proportion will be saved. This procedure would tend to stabilize total employment and income at a lower level than would be possible by enlarged productive facilities. It would seem to be undesirable as long as existing wants are not reasonably well satisfied. Whenever desired, however, this aim might be achieved by equalizing the distribution of income so that there would be less in the

pockets of those in the upper brackets who customarily do most of the saving and more going to the majority of the population who usually spend almost all they earn. The incentive to save on the part of those in the lower brackets could be reduced by measures of social security which make it less necessary for the individual to provide for a rainy day.

The governmental White Paper which makes the employment pledge recommends a series of measures to effectuate it which, while marking a distinct advance over the former practice, are mainly on the conservative side. First of all, it announces the permanent establishment of what is in essence an economic general staff for the government. This consists of a group of experts who will assemble the relevant statistics of economic trends, analyze them, and make appropriate recommendations. The report makes the commitment that the government will aim to maintain "a high and stable level of employment after the war" and states that, in order to do so, it is necessary to have "a policy for maintaining total expenditure." It thus implicitly accepts the Keynes thesis.

The White Paper assumes that after the war as before there will be fluctuations of economic activity, insofar as the government does not intervene to moderate them. One of the chief causes of these fluctuations will be the ups and downs of private investment, and another will be variations in foreign trade. The government proposes to do something to help stabilize private investment. For this purpose it will use variation of interest rates and will encourage private business to conform with the general stabilization policy by expanding its capital equipment during periods when production is slack and prices of materials are low. It expects the long-term economy of this practice to appeal to the profit incentive of businessmen. Another possibility of influencing private investment decisions is through deferred tax credit.

Having sought to influence private investment by such means, it proposes the use of increased governmental expenditure, particularly by public works, in order to offset a slump in business activity. It expects that the prompt employment of this measure at the first

onset of a depression would have salutary results. The White Paper would also reduce contributions to social insurance during slack periods in order to increase popular purchasing power.

The White Paper recognizes the difficulty of controlling fluctuations in international trade, which is not within the jurisdiction of the British government to the same extent as is the internal economy. It does, however, express the hope that other nations may be induced to follow the same type of full-employment practices and stabilize their own economies. This, together with the clearing of trade channels, would expand international trade as a whole and offer the opportunity for an expansion and stabilization of British exports.

Finally, the White Paper recognizes the desirability of influencing the location of industry in such a way as to alleviate unemployment in the former depressed areas.

Sir William Beveridge, who has been the leading British expert on unemployment for many years, advocates a far more comprehensive program in his book *Full Employment in a Free Society*. Originally, Sir William was one of those who attributed unemployment almost entirely to disorganization of the labor market, and he was a leading proponent of labor exchanges. He has not abandoned the view that it is important to take measures to cope with the relative immobility of labor, though experience and study have led him to the conclusion that it is necessary to take employment to the workers in former depressed areas rather than expecting them to seek it elsewhere. He points out that, although labor has been more mobile than many people have believed, it moves more readily from one occupation to another in a given locality than from the locality to a different region. More important still, he frankly recognizes the fact that, even if all the unemployed had sought jobs wherever they might have been offered before the war, there would still not have been nearly enough jobs. He now accepts the thesis that usually the supply of labor exceeds the demand, and he has become converted to the Keynes analysis of the causes of this phenomenon.

Beveridge approaches this problem not by assuming that there must be slumps in production and activity, for which the state will

attempt to compensate after they have started, but by a plan which is intended to prevent depressions from occurring. Like many other students of the subject, he does not regard alternate expansion and contraction of public works for the purpose of compensating the fluctuations of private industry as either a practical or a desirable policy. The demand for public construction is independent of the requirements of a compensatory program. It would be difficult to enlarge public works quickly enough and in sufficient volume to stop a depression, and it would be still more difficult to reduce public building when private industry recovers. Moreover, it does not follow that you can increase the demand for tailors or shoemakers by increasing the demand for masons and carpenters. "It is right," writes Sir William, "that men should move from declining to progressive industries to meet a permanent change in demand and should be helped by training to do so. It is not reasonable or practicable to expect men in great masses to move into or out of public works according as their own industry is slack or busy. Stability means absence of meaningless, unprogressive fluctuation."

The Beveridge program, therefore, is intended to stabilize both private investment and public investment, and to keep the whole economy expanding so that production and consumption can steadily increase as long as there are unsatisfied human wants. The first item in this program is to increase and stabilize consumers' demand by making absolutely sure that everyone, especially at the lower levels of income, is supplied with all the necessities of life. The social security, health service, and housing programs will partially fulfill this need. He would carry the process even further, however, by making the state responsible for the purchase and distribution, at sufficiently low prices, of food essential for adequate nutrition, the standard articles of clothing, and perhaps other goods as well. There would thus be no occasion for fluctuations in production originating from the market demands of the vast majority of consumers for ordinary necessities. This part of the program he calls "the socialization of demand." He points out that it does not necessarily involve the socialization of production. Private enterprise under competition can go on as before as long as it appears to be efficient, although the

state takes over the responsibility of guaranteeing that basic consumers' wants shall be satisfied, if necessary by the use of subsidies. This has been the actual practice during the war. As long as there were any elementary unsatisfied need, there would therefore be no possibility of a slump in the production of goods to meet that need, insofar as market demand is concerned.

Another important item on the program would be the stabilization of private investment. Beveridge regards the proposals of the White Paper in this respect as halfway measures which would be ineffectual. He would set up a National Investment Board which would budget the entire national economy in advance, just as the government already budgets its own receipts and expenditures. It would decide how much ought to be spent and how much ought to be saved to maintain full employment, and would make sure that what was being saved was invested, either privately or publicly. It would plan investment, and if necessary enforce its decisions in the private sector by powers of control and by loan and taxation policy. This Board would make sure that industry became more efficient insofar as investments in new machinery and power systems could make it so, and would expand the productive equipment of the country without permitting wide fluctuations in capital expenditures.

Sir William also favors the expansion of public ownership of industry, for two main purposes: first, to increase the extent of direct government control over the stabilization of investment and production, and second, to remove the evil of private monopoly, which frequently restricts output by the maintenance of prices in the interest of profits. Beveridge is not a doctrinaire socialist and does not advocate on principle the socialization of all means of production. He leaves open the question whether this will ultimately be necessary, but argues that the sort of measures he favors would be equally applicable either in an economy characterized largely by private enterprise or in a socialized economy. His support of nationalization of individual industries is derived partly from the view entertained even by classical economists, that private monopoly is incompatible with the widest possible distribution of goods and the highest possi-

ble volume of employment. Most economists would agree that, wherever competition cannot be maintained, industry should either be strictly regulated in the public interest or should be owned by the public. Sir William apparently regards public ownership as the simpler and more desirable alternative.

Beveridge recognizes the importance of expanding and stabilizing Britain's international trade. He would like to see this facilitated by the right kind of international arrangements, accompanied by full-employment policy in other nations. But in any case, he would have the British government handle purchases of primary commodities from other countries in order to stabilize their output and so to maintain the purchasing power of these countries for British exports. This suggestion looks toward the kind of bilateral trade agreement or barter arrangement which would be outlawed by the desire of the United States government for multilateral international trade on a free competitive basis and without restrictions.

The Beveridge program is more ambitious in its objectives than the official employment policy. He seeks not merely a high level of employment, but full employment. Full employment means, in his definition, "having always more vacant jobs than unemployed men, not slightly fewer jobs. It means that the jobs are at fair wages, of such a kind, and so located that the unemployed men can reasonably be expected to take them, it means, by consequence, that the normal lag between losing one job and finding another will be very short." It would be impossible in any economy characterized by technological change and development to avoid unemployment altogether, because there would always be shifting from declining industries to expanding industries or from one kind of job to another kind. But Beveridge estimates that this desirable shifting will not necessitate at any one time the unemployment of more than 3 per cent of the working force, if his suggestions are adopted.

Sir William points out a number of important advantages in a situation where there are always more jobs seeking men than men seeking jobs. Society, he argues, should exist for the individual. "A person who has difficulty in buying the labor that he wants suffers inconvenience or reduction of profits. A person who cannot sell his

labor is in effect told that he is of no use. The first difficulty causes annoyance or loss, the other is a personal catastrophe." He argues that when there is no danger of involuntary unemployment, trade unions will be willing to forego practices that restrict production. They will not oppose technical improvements which in the past they have feared because such improvements have made it necessary for men to seek new jobs. Beveridge also cites the well-recognized principle that, when labor is scarce and wages are high, the use of labor-saving devices is stimulated, whereas, when labor is plentiful and cheap, men and women are often employed at drudgery that should be the province of machines. Finally, a minimal amount of frictional unemployment would greatly reduce the burden on unemployment insurance.

In general, employment resulting from demand for the services of the worker has a far higher personal and social value than either jobs created for the purpose of giving employment, or compensation for being out of work. People want not merely the means of buying what they need in order to sustain physical life, but the sense of being valued and of filling an important place. Nothing could more directly contribute to such a sense on the part of the workers than a demand for labor which was greater than its supply, so that the worker had an opportunity to choose among jobs at least as great as the opportunity of the employer to choose among workers.

What are the implications for liberty of a program like this? Beveridge argues that it impinges not at all upon ordinary civil liberties such as freedom of speech, religion, and assembly. It does not exclude the right to bring about peaceable change in government. It actually increases freedom in choice of occupation and in the management of a personal income. The program would not retain complete freedom to engage in private business enterprise, but this freedom is bound to be limited in any case.

Nevertheless, these freedoms must be exercised responsibly if the full-employment policy is to work. While people retain the democratic right to change their government, there must be a reasonable continuity of the economic policy of that government. While workers may combine and engage in collective bargaining, the ad-



ditional bargaining power which full employment would give them cannot be used to push wages so high that inflation results. The increased freedom to change jobs should not lead to a decline of necessary industrial discipline and a wastefully high labor turnover. The freedom to dispose of one's income must not be allowed to interfere with the necessary national balance between savings and investment.

Beveridge firmly believes that, with the proper institutions and social conditioning, responsibility of these sorts may be developed. No degree or kind of freedom can ever be exercised without a corresponding responsibility and a voluntary acceptance of social discipline. That is the condition of retaining it. To admit that full employment cannot work in a free society, that a policy of this kind would demand dictatorial action enforced by heavy penalties, would be to assert that workers cannot really be free and responsible members of society, but must be driven to their jobs and forced to obey their superiors by the terrible and haunting fear of being left without work. A society characterized by mass unemployment is in reality very far from free.

The left wing of the Labour Party believes that the reconstruction program and the maintenance of full employment cannot be assured without more progress toward socialized ownership than Beveridge recommends. The Labour Party itself has adopted a program advocating the nationalization of mines, railroads, banks, land, iron and steel, and other basic industries. Any serious attempt to enact such measures will depend partly on political developments and partly on the obstructions which private enterprise may in fact erect in the way of the reconstruction program. Somewhere between the moderation of the White Paper and the program of the left wingers, an attempt to effectuate full employment will be made.

The government economists, while not so optimistic of the outcome as Sir William Beveridge, expect to keep unemployment to somewhere between 5 and 8 per cent of the working force. They argue that, at least in the transitional period, the various reconstruction programs plus the demand of individual consumers will almost automatically produce the desired result and that, indeed, there is

likely to be a shortage of manpower rather than the reverse. For a longer term program, they place heavy reliance on the fact that the government will directly control the activity of a large percentage of the construction industry as well as many other undertakings. There is little doubt in anyone's mind that at least considerable progress may be made toward the nationally approved objective as far as the behavior of the internal economy is concerned. The doubt in the minds of all is centered on the effect of international economic developments.

# 9

## THE DOLLAR AND THE POUND

RESPONSIBLE leaders in both Britain and the United States, foreseeing the danger that the economic policies of the two countries may diverge, and recognizing the disastrous results that might follow such disharmony, have been striving to find a common ground. This attempt goes back as far as the master Lend-Lease Agreement between the United States and Great Britain. In addition to the pooling of resources made possible by that agreement, and the possible means outlined for balancing lend-lease shipments, record was made of an intention to extend cooperation after the war. The basic expression of this intention may be found in Article VII, which declares that there shall be "provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers."

In pursuance of this understanding, one of the first projects undertaken was the outlining of a means of stabilizing the exchange values of currencies when peace should return. This project was placed high on the agenda, not because either party believed that logically it was a foundation of everything else which needed to be done, or was in any sense a key to the problem as a whole. It was recognized that exchange stabilization could not be achieved without the establishment of equilibrium in balances of payments and the stabilization of the whole economy of the world, so that production and consumption might be expanded and depressions avoided.

As a matter of political strategy, however, it was thought best to make a piecemeal attack rather than raising the immensely complex problem as a whole. Currency stabilization was chosen as a topic with which to make a beginning, because there seemed to be little doubt of widespread approval of it, especially in the United States, and it was a concrete matter in which a large body of experience had been gained before the war.

In some respects this decision was unfortunate. International exchange is a highly technical subject which lies outside the experience of most citizens, even of many who are generally well informed. Only international bankers and economic experts are familiar with its terms. The bankers have both interests and prejudices to safeguard, while many of the economists who have specialized in the subject are inclined to be conservative. Any possible scheme for stabilization would be sure to embody provisions that would stimulate a technical controversy. At the same time, those who really understood the subject would be left free to argue that the success of any stabilization pact would depend on policies and circumstances not covered by its text. Those who opposed any specific plan could therefore contend that other and more important matters should be settled first.

Discussion of exchange stabilization proposals has also been confused by the fact that during the war there was little personal contact or communication between Englishmen and Americans, outside of official circles. Most Americans were completely unaware of the developments in British opinion outlined in the preceding chapters, while most Englishmen were even more at sea than citizens of this country concerning our domestic postwar plans and prospects. Even those who had a better knowledge of the other country than had the general public failed for the most part to understand the underlying reasons for the opinions which had come to their attention. Yet proposals like those formulated at Bretton Woods cannot be intelligently discussed except against the background of the general economic requirements and policies of the two nations.

It is not the present purpose to make any argument either for or

against the Monetary Fund and the International Bank, but rather to use that program as a good platform for discussion of the exchange stabilization problem in general. Some policy or other must be followed in this field, and whatever is done is certain to be closely associated with the more important international issues which are at stake. The general public is not interested in minor technical details of procedure in the money markets, but it is vitally concerned with the outcome of controversies which for some time happened to be centered on this project because of the fact that it was one of the first in which international economic cooperation was attempted.

The experts in England and the United States who explored this subject began by making certain assumptions and recognizing certain probabilities. They assumed first of all that the international gold standard, which had served before the First World War automatically to stabilize exchanges, could not be restored. Even if theoretically there remained a possibility of restoring it, the strong and unalterable opposition existing in England would have made that course impossible. They also assumed that after this war the immense dislocations which the economy of the world had suffered would lead to even wider fluctuations in exchange values than had occurred in the interwar period, unless international action were taken to prevent them. Finally, they assumed that what was desired was not merely emergency action of the sort which might be improvised to meet a situation regarded as temporary—like the stabilization agreement that preceded the war—but rather a charter or constitution for an international monetary organization which might mark a permanent advance in the method of handling the problem.

The next step was for each of the two nations chiefly concerned to formulate a suggested plan of its own so that discussions could be advanced on the basis of definite proposals. Lord Keynes supervised the work in Britain, and Mr. Harry D. White of the Treasury Department was chiefly responsible for the American draft. Although both plans have been superseded by subsequent negotiations, it is well to pause a moment in order to note their leading characteristics.

This is particularly true of the Keynes plan, since much less of it was embodied in the Bretton Woods draft.

The Keynes plan was a development from the ordinary banking practice used in transferring payments within a nation. Only small payments are customarily made by the transfer of currency or bank notes. What normally happens in business transactions is that the buyer draws a check against his account in a bank and the seller deposits this check to his account. Essentially, the transfer is thus a bookkeeping transaction. Payments from one bank to another are handled by a clearing process, which is also a bookkeeping transaction. Even when bank deposits are increased by loans extended by the banks, this result is accomplished by the entry of figures on the accounts kept by the banks for their customers. Keynes suggested that an international clearing union be set up which should open an account for every participating nation. Whenever a country had to make a payment to settle a deficit in its international trade, a debit would be entered on its account, and an equivalent credit entry would be made on the account of the nation receiving the payment. The accounts were to be kept in terms of a new international unit of currency to be called the "bancor." The exchange value of each nation's currency was to be stated in terms of this unit. Naturally, there had to be some limit to the amount any given country could draw, as there is in ordinary banking accounts. This limit was set at a relatively large figure—75 per cent of the country's average foreign trade turnover during the last three prewar years.

The first purpose of this plan was to offer every nation confidence that it could proceed to buy abroad what it wanted, without limiting its purchases by consideration of the amount of foreign exchange which would become available to it as a result of its exports. The reasoning was that if world trade were to expand, the emphasis must be placed upon buying rather than upon selling. For the world as a whole, exports and imports will automatically balance, because a purchase by anyone means a sale by somebody else. One of the principal difficulties in the past has been that worry about acquiring the means of payment has caused nations to limit their purchases abroad.

It was necessary to set a limit somewhere to the amount which a given nation might buy by such book entries, since otherwise its credit would eventually suffer in the countries that supplied it, or the clearing agency might become merely a scheme for permitting some nations to live on the charity of others. Keynes recognized that in the long run the account of any single nation must be balanced. He suggested relatively large quotas, however, in order to stimulate confidence and set the world trading system going amid the difficulties and uncertainties which would succeed the war. In essence, the quota was similar to a bank credit which might be established in favor of an individual depositor.

What was to prevent a nation from exhausting its quota and then facing a sudden collapse in its means of payment? This could happen only if the value of its imports exceeded the value of its exports for a considerable period. Such an outcome might indicate that the exchange value of its currency had been set too high. The necessary remedy would then be to allow it to depreciate its exchange. If the system were to work, however, this remedy could be permitted only if other remedial action of a desirable nature could not be taken, since the purpose of the whole plan was to stabilize exchanges and avoid their competitive depreciation.

Under the gold standard, what happened when a country had exhausted its means of payment for imports, and did not depreciate the gold value of its exchange, was that it had to buy less or sell more or do both. If it bought less, it both reduced the amount of goods available for its population and exerted a depressing influence on world trade. It could sell more only by reducing the prices of its exports, and this usually meant a reduction in its internal prices and wages. Thus, the pressure of the gold standard on a deficit country was exerted in a deflationary direction, both as regards its foreign transactions and as regards its internal economy.

There is theoretically, however, another possible remedy. That is for the nation or nations having a *surplus* in their international accounts to buy *more* abroad, and thus supply more exchange to the deficit countries. Such a course would obviously be preferable to the deflationary one, not only from the point of view of the nations hav-

ing deficits, but for the purpose of expanding world trade. The Keynes plan therefore suggested that when there was danger of a deficit country's exhausting its quota, the clearing union exert pressure on the countries with surpluses to balance their foreign payments. Excessive surpluses were to be made subject to fines. The surplus countries might adopt a number of policies which would benefit world trade as a whole and relieve pressure on the deficit countries. They might, for instance, encourage imports by reducing tariffs. They might enlarge the demand of their populations for imported goods by establishing full employment and thus increasing the national income. Or they might help to increase production throughout the world by enlarging their foreign investments. The transfer of capital abroad in this case would offer additional means of payment to the deficit countries.

The White plan was built upon the exchange stabilization that had been practiced before the war. It was far less imaginative than the Keynes plan in reaching out for the fundamental causes of difficulty, and offered no promise of doing anything more than keeping exchanges steady for short terms, pending the adoption of more fundamental measures to rectify any long-continued lack of balance in international payments. It proposed, instead of an international clearing union, a stabilization fund to which the several nations would contribute gold and currency. The size of the contributions was to be set with some relation to the resources severally available. This fund was to be used in such a way as to counterbalance temporary disparities between the supply of, and the demand for, the various currencies.

After much discussion of these two plans and conferences among the financial experts, the final draft of Bretton Woods was adopted. It follows the White proposal in setting up an International Monetary Fund, but makes some concessions to the British point of view as represented in the Keynes plan. Nations having deficits in their international accounts can draw on the Fund to the extent of their contributions to it, which are to be made in the form of gold and their own currencies. The quotas thus set are much



smaller than under the Keynes plan. The fact that a country can acquire a certain amount of ability to pay its foreign debts, in excess of that arising from its own exports, by paying its own currency into the Fund amounts to a credit extended to it on international account.

This plan, like that suggested by Lord Keynes, visualizes the possibility that a deficit country might eventually have to depreciate its exchange. It can do so within a limit of 10 per cent, on its own initiative. Permission of the international governing body, however, is to be required for a larger depreciation, and this permission can not be granted before other measures are tried.

The chief means of remedying a deficiency of purchasing power on the part of the nations having insufficient foreign exchange is, under this plan, somewhat different from that which normally would occur under the gold standard. The currency of any country, which, by developing a surplus of incoming payments, creates a scarcity of its money for the use of other countries, can be declared "scarce" by the governors of the Fund. In this event the scarce currency can be rationed by the Fund among those of its members who need it, and they can restrict their purchases from the country in question in accordance with the amount of the scarce currency available to them.

Before the war, when a currency became scarce, the nations which needed it in order to purchase abroad might for a while continue to go into debt through lack of it, and so further endanger their liquidity. The ultimate outcome, however, was sure to be enforced restriction of purchases from the nation which did not buy or lend enough. The only apparent difference between the Bretton Woods device and what would normally happen, therefore, is that under it the restriction of purchases might be inaugurated promptly enough to avoid hopelessly unbalanced payments, and might be made in a planful way under international agreement. Even this procedure is almost exactly the same as that employed by the sterling area during the war. Among the countries belonging to it, the scarce currencies were not available for expenditure according to the wish of the

individual nations, but were pooled and allotted according to schedules of war priorities. In this way they were made to go as far as possible in serving the most essential needs.

What lies behind the words of the scarce-currency clause, therefore, is an implicit concession by the United States that the joint exchange control of the sterling area—or any similar group of nations—may be continued or revived after the war, in spite of any promise to avoid discriminatory practices, if dollars then remain or become scarce. This was a concession to the British need for some defense against the consequences of a long-continued American export surplus. Something slightly more constructive is also implied. Formal international action declaring a currency “scarce” might exert some pressure on a surplus nation to supply more of its currency. For notice would be served upon it in advance that, if it did not do so, its exports would be restricted.

The United States will probably be the only important nation after the war whose currency may become scarce, just as it was before the war. If threatened by loss of exports because other nations do not have enough dollars to buy as much in this country as before, the United States might make more dollars available to the Fund, that is, it would make what would amount to a loan to the other countries in question. This, however, would be a temponizing measure and might easily be of doubtful wisdom. The sounder possibilities would be exactly the same as under the Keynes plan. This country might increase its purchases abroad through reducing its tariffs or enlarging its national income by a full-employment policy. It might decrease its exports if these were being stimulated by subsidies. Or it might increase its foreign investment in productive facilities. Any or all of these measures would help to expand world trade and to maintain standards of living in the deficit countries.

The Bretton Woods plan pledges the participating nations to forego competitive exchange depreciation and to avoid discriminatory practices, with the exception of those authorized under the scarce-currency principle. The intention is that all nations shall work under it toward the ideals of multilateral trading. The nations, however, are to be allowed exemption from this restriction for the

transitional period of five years, during which some of them at least will have to adopt special measures to recover from the dislocations of the war.

The Bretton Woods draft supplemented the Monetary Fund by a proposal for an International Bank for Reconstruction and Development. The purpose of this Bank is to facilitate a revival of international investment. Its capital is to be contributed by the participating nations according to quotas set by the conference. It can make loans in any part of the world for productive purposes, or may guarantee such loans made by others. It can not, however, make loans from its own resources in cases where the prospective borrowers are able to obtain the money from private lenders on "reasonable" terms. All loans made or guaranteed by it are to be backed dollar for dollar by its capital, which is set at 10,000,000,000 dollars. This amount therefore will limit its possible effectiveness, unless the capital should be increased or the regulations changed.

The proposal for this International Investment Bank looks in the direction of expanding world trade. It also offers an instrumentality for encouraging the foreign investment which may be necessary to balance international accounts and so to relieve strains that otherwise might prove to be too heavy for the Monetary Fund. In a sense, therefore, it is a necessary companion to the Fund. Just as it is probable that dollar exchange may become scarce, it is also probable that the United States will for some years be almost the only nation with a surplus of capital available for investment abroad. The Bank can stimulate such investments, and by so doing help to relieve the shortage of dollars. The advantage of this arrangement to American investors would be that their loans would be guaranteed by an international governmental agency and would in case of default be made good out of funds contributed by all the participating nations.

Under the plan proposed, the Bank might not be able to carry on international investment on the terms or to the extent required by the situation. As within a national economy, there are likely to be possibilities for development which would be perfectly sound financially and would benefit everybody concerned, and yet would

not be made by private investors on terms which it would be possible for the borrowers to pay. The limits of the Bank's capacity to lend or to guarantee loans are small in relation to the probable need. It has been argued in support of the plan that it would be well to begin as conservatively as possible and then to enlarge the scope of the institution after it has established confidence in its ability and solvency, and as the need develops. It is also possible that a public institution of this kind would blaze the trail for lending institutions set up by single governments, like the Export-Import Bank in the United States, or for private investors who would not need its guarantees.

It should be noted that, in the past, the Export-Import Bank has usually made loans to foreign countries only with the understanding that the proceeds be spent for American goods; its explicit purpose was to use American capital to push American exports. Such a practice was just as discriminatory, and just as much an interference with free multilateral trade, as were British or German bilateral trade or clearing agreements, which it is the evident intention of the United States to outlaw in the future. The great advantage of an International Bank in promoting the free competition which the United States officially favors is that its loans would presumably not be "tied" in this way.

Thus China, let us say, might borrow through the bank funds originating in the United States and spend them for machinery made in England. What, it may be asked, would be the advantage of such a procedure in the United States? This is exactly the same sort of question the British ask when they inquire why they should buy Argentine beef, only to have Argentina spend the proceeds for American automobiles. In both cases, the restrictive remedy is an exclusive dicker between the two nations concerned. In both cases the answer of the advocate of multilateral trade is that all nations will eventually gain more if available money is spent where it can buy the most and best at the lowest price. Thus, in the instances in question, the United States might put up the money, China might use it to buy British machinery, Britain might use the money so gained to buy Argentine beef, and Argentina might round the circle

by buying American automobiles with the proceeds. Each nation would buy what it really wanted where it could buy that product to the best advantage.

Regardless of the detailed provisions, which may be amended from time to time or changed altogether, the main significance of the proposals for the Bank and the Fund lies in the fact that they embody what is intended to be a working compromise between the foreign trade doctrine of the United States and that of Great Britain. In the draft agreement, Britain surrendered the right to use the discriminatory practices that would be essential if she were to build up a separate trading area in an attempt to insulate herself against the American economy. She did this, at least for the long run, by promising to forego such practices after the transitional period. The United States, in return, conceded the right of Britain to exercise certain kinds of "discrimination" during the first five years, agreed to permit limited flexibility in the exchange values of currencies within the framework of stabilization and under international control, and evinced at least an elementary recognition of the British belief that a healthy and balanced world trade cannot be achieved merely by the removal of barriers, but requires also measures that will promote expansion, such as an increase of investment in productive undertakings and an enlargement of imports on the part of any nation which maintains an export surplus of sufficient importance to exert a downward pressure on the currencies of other nations.

Such a compromise naturally does not satisfy either the conservative extremists in the United States or the extreme advocates of insulation against our economy in Britain. Those in America who still adhere to classical doctrine believe that the main requisite is international freedom of trade on a multilateral basis and that, once this is established, it will be possible to go back to the gold standard. They distrust all departures which would substitute any degree of international planning or conscious policy-making for the "automatic" adjustments that the gold standard is supposed to effectuate.

If a deficit developed in the international accounts of Britain, and as a consequence the exchange value of sterling tended to fall, they

would like to see Britain refuse to allow her currency to depreciate, and remedy the lack of balance in her international payments by permitting deflation and unemployment at home. This, according to the classical theory, must be the result of losing gold to meet a deficit in exchange payments. A shrinking gold reserve means that the banks adhering to a rigid gold standard cannot distribute so much currency and credit, this in turn is supposed to check business activity, and to cause a surplus of supply over demand in the markets for labor and capital which will lead to a reduction of wages and prices. Then, it is supposed, foreigners will find it cheaper to buy what they want in the nation in question, its exports will be increased while its imports fall, and equilibrium will be restored in the exchange value of its currency. This outcome will in turn put a brake on the deflationary forces.

If, on the other hand, the nation suffering a deficit in its international payments attempts to combat such a deflationary influence by keeping up its prices and employment—as Lord Keynes and the British government now intend to do—the classicists hold that the pressure on the exchange value of its currency cannot be removed unless it devalues its money. The Americans who object to the Keynes policy do not want to support that policy in England through any exchange agreement by which American credit would be used to bulwark sterling in such circumstances. To the British retort that an equally good remedy, even under the old theory of the gold standard, would be for the nation which had a surplus of exchange to maintain full employment so that it could buy more, the Americans in question would reply that they do not approve of the Keynes fiscal policy in the United States either.

An editorial writer in the *New York Times* expressed this point of view in commenting on the British White Paper on Employment Policy. "The British proposals," he wrote, "imply a policy of cheap money, currency expansion, and deficit spending, all of which must endanger any previously established parity for the British pound sterling." He asked whether other nations participating in the Fund "can be expected to underwrite such plans and in effect to support such domestic policies." No doubt this writer was thinking specifi-

cally of the clause in the Bretton Woods agreement which sanctions changes in exchange rates necessary to correct "fundamental disequilibrium," defines lack of liquidity arising from full-employment policies of a member nation as "fundamental disequilibrium," and specifies that no objection shall be raised to a proposed change in exchange rates "because of the domestic social or political policies of the member proposing the change" [Article LV, Section 5, (f)].

The suggestion that Britain ought to be obliged to undergo deflation in order to maintain the exchange value of its currency is indignantly rejected by British opinion of all varieties. There is too vivid a memory of the decline in export industries occurring between the wars, when Britain returned to the gold standard at what is now regarded as too high a parity. Any British leader foolhardy enough to suggest a repetition of this experience would suffer political eclipse, if for no other reason than that it would make impossible of achievement most of the reconstruction plans to which all are committed.

It particularly infuriates Englishmen when such a suggestion comes from the United States. This looks like an attempt on the part of Americans to dictate the internal policy of Great Britain. And it assumes a superior economic wisdom on the part of citizens of a nation which handled its economic affairs so recklessly after the last war as to plunge Britain and the rest of the world into depression. Bland effrontery could, it would appear, go no further. Americans who oppose plans like the clearing union or the monetary fund because they would prefer that Britain return to the gold standard and surrender her pledge of full employment ignore the fact that this is not the alternative. Britain will under no circumstances reinstate the gold standard. She will depreciate or discriminate as much as she may please, if no international agreement can be reached which seems to offer her another escape from unemployment. If Bretton Woods does not provide this escape, she will withdraw from the organization, as she has the right to do.

The more extreme British advocates of economic independence dislike the proposal for an international monetary fund evolved at Bretton Woods because they think it ties their nation too closely to

something like the gold standard. They wish to have the power to depreciate their currency, if they believe it wise to do so, without obtaining the consent of an international body in which a large power would be exercised by a nation from which such sentiments have been heard. They do not relish the promise to embrace membership in a world-wide multilateral trading system including a nation which they expect will exert a deflationary influence, either by design or by blunder. They are convinced that the United States will have another great depression, and they do not wish to waste time in futile cooperative gestures, but rather to set about the task of insulating themselves from it without further ado.

It is argued by British supporters of the Bretton Woods draft agreement that nothing in it specifically forbids the long-term buying arrangements which are advocated as a means of insuring the British supplies of food and raw materials from abroad, and of making sure that they would be paid for by exports of British goods to the countries of supply. Whether or not the argument is well taken, agreements of this kind would certainly violate the spirit of an engagement to return to multilateral freedom of trade. Moreover, the Bretton Woods draft specifically outlaws the continuance of exchange control after the five-year transitional period. But bilateral purchasing agreements cannot be expected to operate well without the machinery for exchange clearing which accompanied them before the war. The new proposals offer a substitute for this machinery only on a multilateral scale, which would not suffice to balance payments between two particular nations.

British advocates of the international plan which was agreed upon at Bretton Woods point out that it would allow Britain to depreciate her currency if the necessity should arise, and would do so in such a way as to protect her against the retaliation that would follow if there were no general agreement on the rules covering such action. Before the war, if one country depreciated its exchange in order to gain advantage in the competition for exports, other nations might be expected to restore their competitive position by following its example. Offsetting measures of other kinds were also open to them. The United States did, as a matter of fact, devalue the dollar after



Britain went off the gold standard, although Englishmen believed that overvaluation of the pound in relation to the dollar was one of the chief causes of their difficulty. If in the future, however, the exchange value of the pound were to be reduced by consent of the governing body of an exchange stabilization organization under which no nation could depreciate its currency without permission, competition of this sort would be eliminated.

No influential school of economic thought holds that exchange depreciation is desirable, except as a possible measure to remedy a lack of balance in payments which cannot be obviated in any other way. Even if Britain should strive to insulate herself against the American economy through the creation of a separate trading area, exchange values would be stabilized within this area. Both those leaders of British thought who favor the International Monetary Fund and those who oppose it agree that the basic requirement for stability in exchanges would be an economic policy on the part of the United States which would lead to a balancing of exports with imports, and so would avoid any scarcity of dollars in the world markets. In maintaining such a balance of payments, sound and productive foreign investments on the part of the United States are not, of course, excluded.

Any assurance that the United States will follow a policy of balancing its trade is lacking in the Bretton Woods agreement as well as in any other American commitment. The British opponents of multilateral trading are left free to argue that an American depression is in prospect, that the United States is not likely to maintain full employment at home, and that as a consequence this country will be almost certain to seek to export its unemployment by maintaining an export surplus of goods. The British advocates of cooperation with the United States are left in a weak position by lack of ability to show that such an outcome is improbable. They must argue that on grounds of long-term policy Britain ought to take the chance. Their opponents believe that the chance is too great, and that the consequences of an unlucky gamble would be disastrous.

As economic theorists in both nations have demonstrated, neither

the gold standard nor any device which may be substituted for it can avoid monetary difficulties unless the two chief trading nations pursue substantially the same economic and fiscal policies. Any agreement on exchange stabilization is certain to break down in the long run if, while Britain is committed to full employment, the United States suffers deflation. Economic cooperation between them cannot continue unless they both unite in choosing one of two fairly clear alternatives. The first is that suggested by the *New York Times*—that they permit deflation to do its work and rely on the “automatic” economic forces postulated by the classical theories to restore equilibrium. The second is that they both espouse the program of maintaining full employment by planned expansion and stabilization of spending and investment.

Responsible leaders in both countries recognize the danger that an economic split may occur and see that it would be extremely dangerous to both. But the future may not be entirely under their control. No matter what agreements they may reach with each other, if a slump in the United States should bring unemployment and a low standard of living to the British people, Parliament would not be likely to support their view. Apprehension of an American slump is deep and widespread. If the event should bear out the fear prevailing British opinion would almost certainly hold that the rest of the world must be organized to resist American economic infection, just as during the war the rest of the world was organized to resist German military domination.

FOOD, PLANES, SHIPS,  
AND OIL

SO far we have been discussing the more general aspects of economic policy like employment, investment, and monetary control. There are, however, certain specific points at which friction between the United States and Great Britain is likely to generate a maximum amount of heat, if they pursue opposite courses. These points can readily be identified. We may take a few of them as major examples. One is food, of which Britain is on balance a consumer and the United States a producer. Producers and consumers are necessary to each other, but if harmony between them is to exist, they must reach a satisfactory bargain on prices and quantities. Friction of a somewhat different kind has arisen in the areas of civil aviation and shipping. In these areas, though the citizens of both nations are of course consumers, they both have an excess capacity which they wish to sell for the service of others. Finally, we have cases like those of rubber and petroleum, in which there is likely to be rivalry over the control of natural resources and their equitable distribution.

The food problem was the first one to be attacked by those attempting international postwar planning. The spirit in which the attempt was made was extremely far-sighted, because narrow national interests were subordinated to the needs of the people of the world as consumers. Adequate nutrition was placed in the foreground rather than differences between limited groups or nations having special interests.

The International Food Conference at Warm Springs, Virginia, occurred in a world whose articulate upper strata were more concerned than for years with the problem of getting enough to eat. Even in the United States, the best fed country in the world, housewives were contriving how to stretch their red and blue coupons

around the weekly menu, if indeed meat, butter, eggs, potatoes, and fresh vegetables were momentarily available at all. Black markets and ceiling prices were in the headlines daily, while strikes multiplied because of a rising cost of living caused almost exclusively by increases in food prices.

People generally accepted this situation as an accompaniment of war without having any clear idea as to its causes. Yet in what sense did the war affect our food? No enemy devastated our food-growing regions. Nor did war cut off important sources of supply from abroad, or even diminish them, with the exception of a few items relatively unimportant in an adequate diet, such as coffee and bananas. In general, we are a food-exporting nation, and the main effect of the hostilities was to make it difficult to export as much as usual. We were, to be sure, helping to feed our allies, but Britain ate less than in peace and raised more, and it was a physical impossibility to ship enough to Russia or China to make much of a hole in our stocks. Lend-Lease during the war in Europe took no larger percentage of what we raised than the exports of a normal peacetime year. Meanwhile, in 1942 we raised nearly a quarter more food than usual.

Far from having a diminished supply of food, we had an increased supply. What the war did was to enlarge the demand, not so much to feed foreigners as to feed American citizens. The army and navy bought large quantities, but only to sustain in good health men and women who always were dependent on the produce of American farmers. It is true that the military accumulated surplus stocks, but there is a limit to this process except in the foods that will keep indefinitely. Wage earners were at last fully employed at decent wages. They were buying more and better food than they had previously been able to afford. What created the shortage in the market was mainly the fact that for the first time in years millions of our fellow-citizens were getting enough to eat.

The dramatic implications of this fact of our daily experience were almost beyond calculation. During the depression we used to talk of the paradox of want in the midst of plenty. There was want, all right, much more of it than in wartime. But there was not plenty, in the sense of too many farms and too many farmers, except pos-

sibly in the case of a few products like wheat. What did exist were market surpluses impossible to sell, at prices that would bring a living to farmers, to a world impoverished by unemployment. But if we had then been forced to share what food there was as nearly equitably as we did later, the rationing of the scarcer foods would have made our wartime tables seem like groaning boards.

If this was true in the United States, think of the situation in the many other countries where standards of life are lower, where nutrition is less adequate than here even in normal times, and where the war brought catastrophic decrease of production. Think of the significance of this shortage to postwar planning. And ponder for a moment the inescapable conclusion that what we are used to calling the farm problem is not really a farm problem at all, in the sense that it can be solved by remedial measures directed at the agricultural regions. It is rather a problem of increasing the purchasing power of the consumers of farm products, of clearing the pathways of distribution, and of finding out how to produce more and better food more economically.

The International Food Conference had on its agenda the most basic need of the most fundamental of the four freedoms—freedom from want. You would not have known this from anything the newspapers or the more vocal congressmen said about it in advance. You would have thought that it was some kind of dark conspiracy of wicked diplomats, aimed principally at violating freedom of the press by seeking to maintain some privacy for its preliminary discussions. The columns devoted to the greedy clutching for “news” on the part of the lords of the press—news apparently being conceived principally as exploitation of the conflicts that were expected to develop—took the place of the real news which a more imaginative press might have printed to illuminate the immensely important background of a conference of this kind.

The conference was not composed of diplomats, or of representatives with power to commit their respective governments to anything at all. It was composed of able experts, and was exploratory in nature. It was expected to lay down the fundamentals of the problem, and on that basis to make recommendations to the forty-four na-

tions participating. The action to be recommended was to be carried out partly by prospective international agencies, but mainly by the several nations, each within itself. This expectation was handsomely fulfilled. The conclusions of the conference hit straight at the heart, not only of the specific problem set before it, but of the central problem of building a world economy that could justify calling the international conflict a people's war. If its successors do half as good a job, the United Nations may endure as the organizer of peace and plenty.

The section on distribution, for instance, began by pointing out that "freedom from want cannot be achieved without freedom from fear." This is true in a concrete and tangible way, because fear of aggression has caused wasteful employment of men and materials and has raised barriers to international trade. Therefore collective security is a condition precedent of all else.

Next was emphasized the dependence of agriculture on full employment in industry. An expanding economy must be achieved if food is to be plentifully raised and distributed. "Expansion of industry on a sound basis in undeveloped and other areas and equality of access to materials and power are indispensable to any comprehensive plan for advancing agriculture." This basic point was one which our farm blocs and even our New Deal failed fully to understand.

Only after establishing these principles did the section on distribution go on to consider such relatively technical matters as the restrictions on trade, the need for equilibrium in international balances of payments, the management of currencies and exchange, and international measures to stabilize commodity markets.

The entire program was oriented about the inadequate nutrition which we know, according to modern scientific standards, exists throughout the world—in the United States as well as in other countries, and in peace as well as in war. The report presented these facts in considerable detail and called for more investigation of the subject. It recommended not only international measures, but the acceptance by each government of the responsibility to improve the diet of its own citizens by such instrumentalities as social security,

"direct action to make protective foods available free or at low prices to groups with inadequate diets," special measures for "pregnant women, nursing mothers, infants, children, aged persons and those with low pay." All this to accompany clearing the channels of distribution, and encouraging the production of those foods which are adapted to the soil and climate of each country.

The need for better diet may be illustrated by the situation in the Latin American countries, where the deficiency of nutrition is especially striking because most of them are exporters of food. According to experts of the League of Nations, the consumption of milk and meat is extremely low in all these nations with the exception of Argentina, Uruguay, and Paraguay. None of them consumes enough butter. There is a marked lack of fruits and fresh green vegetables in the Latin American diet. Though the figures are far from complete or representative, being based in some cases on total production or exports rather than on domestic consumption, the following table indicates a startlingly low standard of nutrition in Latin America. It reveals the percentage by which Latin America (excluding Argentina) falls short of the standard existing on the average in European and North American countries, plus Argentina.

<i>Protective Foods</i>		<i>Energy Foods</i>	
Butter	—92.0%	Sweet potatoes	—85.6%
Eggs	—86.6%	Oil	—76.7%
Vegetables	—78.4%	Potatoes	—68.4%
Cheese	—77.0%	Wheat	—54.4%
Milk	—57.0%	Sugar	—45.0%
Fruit	—30.1%		

While the Latin American nations thus rank far below the more highly industrialized regions, they probably stand above India, China, and other parts of Asia, especially if the famine years are taken into consideration. And it must be remembered that there is still a large margin for improvement of diet even in the most advanced countries, as the war experience of Britain and the United States has demonstrated.

If adequate nutrition were achieved, the burden of farm surpluses which has caused so much hardship to the producers over the past decade would largely disappear. "To provide the food needs of mankind will require a vast increase in food production in every land." Indeed, the production section of the conference concluded that nonfood products of agriculture as well will have to be expanded if the gap is to be narrowed between the consumption standards of the highly industrialized regions of the world and the others, such as China, India, and South America.

The report did not stop with general recommendations such as these. It called for an interim commission, to be set up immediately by the several governments, each sending a delegate, which would lay the plans for a permanent body to be called the United Nations Food and Agriculture Organization. These plans have now been completed. It also recommended emergency action during the war and in the liberated regions.

It will be seen that the conference did not plan to "give away a quart of milk a day to every Hottentot," but rather to bring about increased production and sales of food to those who need it, as a responsibility of each nation to its own people. Nevertheless, it acknowledged that "undernutrition may persist for a long time in some countries engaged in developing their own agriculture and industry but not yet able to produce either enough food for themselves or possessed of the means to acquire adequate amounts abroad." In such cases a part of world food supplies might be used to supplement the national distribution by such countries. But distinction should be made between famine conditions and general food inadequacy. "Whatever is done in the latter case should be so handled as to assist the countries concerned in the long-term development of their own natural resources."

The principal controversy which was expected to develop at the conference was laid on the shelf for future action. For many years the food-exporting nations have been trying to restrict output in the interest of higher prices, while the food-importing nations have been concerned with getting larger supplies. It was foreseen, however, that during the war and immediately after it the demand for food



would so greatly exceed the supply that the issue was not likely to arise in practical form, and could be left to the permanent organization.

Nevertheless it is interesting to compare the suggestions made on this point. For some time American spokesmen have been promoting international commodity agreements. A draft of a wheat agreement to take effect after the war has already been prepared, though not ratified. This plan takes its cue from the limitation procedures adopted within the United States during the depression. It aims to maintain a price considered fair to the producers, to limit production to the amount which can be sold at that price, and to allocate the international market among the various producing nations. The British, on the other hand, disapprove of such price-valorization schemes for food, which are exactly like the monopolistic practices of cartels, at least in principle. They proposed, as a substitute, the idea of "buffer stocks," which would aim not at maintaining what they regard as an "artificial price" but at stabilizing the market as between good and bad crop years. The objective here would be to sell over a period of years all that could be produced, at whatever price it might command in the market, provided the effect of abnormal weather conditions were eliminated. This purpose would be accomplished by buying and storing surplus stocks in good crop years and selling them in poor years—an international "ever-normal granary" as first suggested by Henry A. Wallace, but uncomplicated by any idea of parity prices.

There is here a real conflict of interest which may be expected to cause trouble in the future, if economic circumstances should be the same as in prewar days. But if the main recommendations of the conference are carried out, and an expanding world economy is assured, the situation might be so different as to erase the controversy.

It was never possible to tell whether there was a real surplus of wheat in relation to people's need for food as long as all consumers did not have enough money to buy bread. What we had was merely a market surplus. But when and if the purchasing power of the consumers is assured, it will be possible to ascertain whether the farmers are growing more food than the public wishes to consume.

It will be particularly possible to do so with a commodity like wheat, the per capita consumption of which has a tendency to fall when standards of living rise above a certain point, simply because people turn to more expensive foods. Against the background of an economy of abundance, then, a genuine overproduction of wheat may arise, and it may make good economic sense to turn land and labor into the production of something else for which there is a greater demand.

It must be added, too, that British interests are not always or entirely on the side of consumers. And the British and the Americans have a common responsibility for too high a valorization of sugar prices, which condemns millions in the West Indies to work for commercial sugar growers when they should be raising their own food. Sugar, by the way, is one of the commodities which the world is likely to consume too freely for a balanced diet, since it often acts as a substitute energy-producer for more valuable protective foods.

Though the United States has been in the past a food-exporting nation, it is now far from being the largest source of supply for the United Kingdom. Of Britain's total imports of grain and flour in 1937, this country supplied only 3.6 per cent. Argentina furnished 29 per cent, Canada was a close second with 27.4 per cent, and Australia was third with 15.4 per cent. The United Kingdom in that year bought only 2.9 per cent of its meat in the United States and obtained the lion's share from Argentina, New Zealand, and Australia. Dairy products were imported mainly from New Zealand and Denmark. It would obviously be embarrassing to Britain if a conflict of interest arose between the countries supplying her food staples and herself, because some of the more important ones are within the British Commonwealth.

Her delegates probably advocated the principle of relatively free markets in this conference because the basic assumption was that there must be an expanding world economy, and Britain's power to purchase abroad would be safeguarded in such an economy. If, however, the policy of the United States were detrimental to general economic expansion and in addition we strove to drive too hard a bargain in the sale of our surplus grains and meat, Britain could

without much difficulty dispense with our contribution to her food supplies and make long-term purchase agreements with the Dominions and Argentina. The United Kingdom could easily insulate herself against the American economy as far as food is concerned.

At the Chicago Aviation Conference the problem of adjusting American with British interests in civil aviation was approached in a much narrower fashion than that of food had been at Warm Springs. The necessities of individual consumers were not placed in the foreground because aviation is still in its infancy, and relatively few now make use of air passenger or freight facilities. The principal interests considered were those of the nations or companies which expect to gain advantage by serving the potential future demand, regarded as a market. Airlines and manufacturers of planes were eager to obtain favorable positions for growth in an expanding industry. Nations were careful to protect their strategic stakes in a field of first importance in war and of high prestige in peace. To Britain in particular, control of air power might be important in knitting together the Empire, serving any future exclusive trading area, and making up in some degree for the loss of foreign revenue anticipated in shipping services.

The problem was of a new sort and contained many complexities. Air transport is unlike transportation over railroads or highways because it does not involve the building, maintenance, or ownership of an expensive right-of-way. Anyone with a plane can go anywhere through the air, as far as meteorological conditions permit, unless some government with police power stops him from doing so. In this respect aviation is more like shipping, since any seaworthy ship can sail the high seas. In one important respect, however, it differs from sea transport. Ports for ocean shipping are usually at or near the external boundaries of nations, where governmental control can readily be exercised. An important airport, however, may be far in the interior, so that a foreign plane cannot reach it without flying over the soil of another nation. Indeed, a plane may land at many places not designed for terminal purposes at all, provided it has a reason for doing so. It may have a very good reason indeed if it gets

into trouble, and yet nations concerned about possible attack from the air are not eager to have foreign planes landing all over them without any regulation.

Unrestricted free trade in the air on the basis of competitive private enterprise was obviously impracticable. The several nations would be certain to impose restrictions and regulations desired by themselves. If international air communication was to be developed, the nations had to come to some agreement as to the rules which would govern it. At the very least, these must concern safety and the use of airports. They must also embody some measure of reciprocity since, although a nation might wish to reserve for itself all air traffic over its territory, it could hardly debar others from its ports and at the same time expect to use their facilities.

The Soviet Union occupied a position at one extreme by failing to send any delegates to the Conference. Apparently, she did not want foreign planes to fly over her territory under any circumstances, and was satisfied for the time being to accept what facilities she might be offered elsewhere on a nonreciprocal basis. Or perhaps she expected to solve her problems of international transport by bilateral agreements rather than through a general international convention. At the other extreme, a simple and radical method of cutting through the difficulties was favored by Australia and New Zealand, as well as by the British Labour Party. This was to set up publicly owned international companies to handle international traffic, presumably national ownership would prevail for domestic lines under this plan. It was not, however, seriously considered because the American government was committed to private enterprise, and the conservatively inclined British government was not eager to push socialization. It thus came about that the debate at the Conference was confined mainly to the difference between the American and the British positions.

The American delegation favored as free as possible a field for competitive private enterprise. It proposed that all the nations agree to "Five Freedoms of the Air," the net result of which would be that virtually no restrictions would exist except those necessary for safety and the prevention of intolerable confusion. Under this plan, com-

petition would be preserved both within nations and between them. Planes of licensed companies would be permitted to fly over any territory, use any public airport, and land anywhere on foreign soil if it should be necessary to do so. One plan even went so far as to permit companies of one country to do internal transport business in another, under certain circumstances. Thus, an American plane flying from New York to London might stop at Liverpool, not only to discharge passengers from New York, but to take on passengers for London. The American plan was defended on the ground that it offered the utmost convenience to passengers and shippers, and that it would promote the low rates, improved service, and indefinite growth which are the necessary accompaniments of an expanding world economy. It was the logical parallel of the American preference for multilateral freedom of trade.

The British proposal, as brought to the conference, was to endow the international regulating authority with power to grant licenses to monopolies, assign quotas, and exercise a strict control over rates and traffic. The conception behind it was that some equitable division of the field would be made in order to avoid international competition, while the consumers would be protected by regulation, as is customary in both countries in land transportation and other public utilities.

The outcome of the conference was a disagreement, except upon some of the elementary "freedoms of the air." Little restriction was placed on international competition, while the United States was left free to encourage as much competition as it wished among American companies. In this field, therefore, rivalry for control of the air between the two major contestants is in prospect.

Reception of this result was a striking illustration of the difference in outlook existing in the two countries. In the United States it was regarded as a desirable victory for competitive private enterprise, which is supposed to lead automatically to an expanding economy. In Britain it was thought to be an evidence of the intention of American business and government to take every possible advantage in a struggle for gain, regardless of the effect on international harmony or the welfare of other nations. This view was not confined

to the Conservatives, but was shared by the political forces on the Left.

In order to understand this divergence it is necessary to take into account several circumstances usually overlooked in discussion of the subject in the United States. Our eyes were on the danger of private monopoly, and our public debate had been mainly concerned with the supposed advantages of competition and the encouragement of new enterprise. In Britain, while there are some theoretical advocates of competition under *laissez faire*, almost nobody believes it ought to be practiced in public services like transportation. Such a function is delegated either to the publicly owned monopoly, or to the nominally private company in which the government has a large share of ownership and control. A company of this sort is known as a "chosen instrument." The Conservatives wish to retain such arrangements, while their principal opponents, the Labour Party, favor national ownership without private participation. Both groups are mainly concerned, when international economic affairs are under discussion, with protection of British national interests and preservation of international harmony.

During the war, it had seemed best for military purposes that British aircraft production be largely concentrated on fighters, while American resources were devoted more to bombers and transport planes. The latter, and the men trained to operate them, are more suitable for civil aviation. Furthermore, the United States had, for military purposes, operated far-flung transport lines and bases in many parts of the world, while the British had less to spare for this purpose. As far as experience, equipment, and facilities went, American aviation was in a position to get the jump on other nations as soon as the war was over.

The British believe, and with reason, that their ability to manufacture, man, and operate transport planes is by no means inferior to ours. Our temporary supremacy is seen as an outcome of war necessities. The British, moreover, have in their Empire and dependencies more widely distributed territory over which to fly and in which to maintain airports than is comprised in the United States. If they wished to establish an exclusive monopoly of world trade in

the air, they would have better facilities for doing so than we. The American proposal therefore looked to them a little like saying, "Give us free permission to fly anywhere we wish over your territory, to use it for ports, to land on it, and to profit from the traffic arising from it. We intend to use this permission to exploit to the full the temporary advantage arising out of our war partnership, without reserving for you any of the business until you have recovered enough from the attack of the Germans to establish yourselves in it."

British government and aviation will not humbly accept any such inferiority. Since competition is what we want, they intend to compete with us with all their energy and ingenuity. In the long run, they do not expect to be left behind in the race, and anyone familiar with their ability and tenacity when roused by a challenge which they regard as unfair would be reluctant to predict their failure. In the meantime, Englishmen who are friendly to this country and wish to see close cooperation between the two nations were grieved and disappointed that in one of the first attempts to hammer out an agreement so little progress was made.

Though shipping is an older and more familiar type of enterprise, and no specific agreement concerning its postwar regulation or allotment seems to be immediately in prospect, the war has created a somewhat similar situation in ocean traffic. Income from shipping services provided before the war an important part of Britain's purchasing power for needed imports; it was her chief "invisible" export. Merchant ships under the British flag at the beginning of the war totaled 17,500,000 gross tons, 11,380,000 tons were lost during its course. New building, purchases, and captures did not make up the loss. Britain was left with about 25 percent less than her prewar tonnage. In the meantime the tonnage of ships under the United States flag has been approximately doubled in a heroic effort to provide the transportation necessary to win the war. Not all these new ships will be well adapted to peaceful trade, but all in all we shall have available a merchant fleet of about the same size as Britain's, instead of one appreciably smaller. If, after the emergency is over, international trade is no greater than in the prewar years, there will be a tremen-

dous surplus of cargo space, a shipping depression, and consequent loss to Britain of income from this source. In such circumstances she could restore her former position only if about half our ships were retired from service, voluntarily or involuntarily.

A similar situation existed after the First World War, and it added to Britain's difficulties on that occasion. World shipping suffered a long depression, and unemployment became the rule in the shipyards of the Clyde and the Tyne. British shipping companies, however, had certain advantages which eventually enabled them to weather the storm. Their costs were less than ours because their wage levels were lower in both building and operating ships. They had long experience in this highly specialized and complex occupation; they had established foreign connections, and their shipping was part of a web of banking, insurance, and other facilities which had naturally grown up in a nation dependent on foreign trade.

In the United States vested interests had arisen which wished to maintain as much as possible of the high wartime level of American ship operation. Shipyards, too, though facing an inevitable shrinkage, strove to salvage what they could. Many Americans have a sentimental interest in the merchant marine, and wanted to see it prosper. Since it could not do so under competition, governmental aid was invoked. Shipping subsidies were inaugurated at the expense of the taxpayers, and governmental lines were established. From the economic point of view, this policy was sheer nonsense. It did not provide any cheaper freight or any better service for the nation's trade. Insofar as American ships were patronized, the resulting income added to the embarrassing export surplus of the United States and helped to upset the British balance of payments. We were, in fact, giving away shipping service at the expense of both American citizens and foreign competitors. This is exactly the sort of thing Britain is afraid we shall do after this war, and the sort of thing which is inconsistent with our expressed desire for multilateral trade without discrimination.

Those who watch the newspapers and magazines may see that another publicity campaign is under way for the postwar American merchant marine. There probably will be another drive to maintain



it by subsidies, if necessary. The navy has an interest in preserving a sufficient amount of American shipping for strategic reasons. This interest is a legitimate one. Nevertheless, it is not to the advantage of the United States economically that we should carry any considerable part of the world's ocean freight, especially if we have to do so at a loss. On the other hand, it is a matter of life and death to Britain that her ships should carry as much as possible. The more successfully American shipping competes with British, the more difficult will become the problem of maintaining the international balance of payments. Every additional ton of commercial freight carried by an American ship which might otherwise have found place on a British vessel will increase the likelihood of a deficit in the British balance and a surplus in the American. This potential cause of trouble, like all the others, will be aggravated if world trade contracts or does not expand. It would be greatly alleviated by world-wide full employment and increase of production.

It was in the United States that petroleum was discovered, and the major share, both of production and consumption of petroleum products, has long been possessed by this country. They have since become a necessity, however, to every important nation. They are particularly indispensable to countries having shipping, planes, and motor vehicles. Not only is petroleum important industrially and economically, but it ranks high among strategic requirements. Great Britain for many years had to import all her petroleum. Although natural deposits were discovered during the war, their quantity is insignificant in comparison with the need. Therefore, British interests have long since staked out control of reserves wherever they could find access to them in other parts of the world. British oil companies have obtained large holdings in Malaya, Persia, the Near East, and Latin American nations, and have combined with the Dutch on the basis of oil deposits in Dutch colonial possessions.

American oil companies have also extended their holdings outside the borders of the United States. Rivalry between American and British concerns has often been keen. In both countries the leading companies are large and financially powerful. This is partic-

ularly true in refining and distribution. The American companies are technically competitive and privately owned, whereas in Britain the government has some share in the ownership and management of the industry

International competition for the control of oil deposits and distribution of oil products has been a potential source of trouble. If no mutually satisfactory arrangement is reached, it will cause more friction in the future as demand increases and deposits become exhausted. It was therefore natural that attempts to make an oil agreement between Britain and the United States were inaugurated during the war. Equitable access to natural resources was one of the expressed aims of the Atlantic Charter. The problem is a particularly difficult one because it is necessary not only to protect the interests of consumers, but to adjust the rivalries of great private interests and governments. No doubt the major companies might come to some satisfactory agreement among themselves, but in that case there would be danger of a huge international monopoly against which the consumers would be defenseless.

The first attempt made to reach an agreement in this field was abortive. British commentators objected to the draft proposed because in mapping out the world's oil reserves as a basis for fair division, the resources within the United States were left entirely out of consideration. In addition, the attempt to reach a compromise resulted in such vague language that the draft was criticized in the United States for mutually contradictory reasons. One faction of the oil industry attacked it on the ground that it subjected private enterprise to governmental control; others believed that a monopoly was being created without sufficient safeguard for the consumer. Though a workable plan may in the end be hammered out, this outcome is far more likely to be achieved in an atmosphere of full Anglo-American cooperation than in a world split into two hostile economic areas by Anglo-American disharmony.

Difficulties loom in other raw materials as well. Before the war, the chief source of natural rubber, of which the United States was the largest consumer, was in British Malaya and the Dutch East Indies.

Soon after the First World War, the British interests attempted to increase prices by restricting output through the Stevenson plan, which rested on British legislation. The government's interest was not simply to push the commercial fortunes of the private owners, but also to help remedy the weakness in sterling exchange by extracting more dollars from American purchasers. The plan was successful for a while in spite of American opposition, but eventually broke down because of the competition from rubber-growing regions that were not included in it. It was succeeded in the early depression years by the International Rubber Regulating Committee, which included the United Kingdom, India, Siam, France, and the Netherlands. This also rested on support by the governments concerned. Naturally, it became obsolescent when Japan conquered the rubber-producing territories and war needs took precedence.

Now the United States has equipment for turning out synthetic rubber capable of fulfilling its normal needs. If costs can be brought low enough, we shall not have to buy much from the former producers unless we wish to do so. But what, in that case, would happen not only to the British, Dutch, and other business interests concerned, but to the natives engaged in rubber production, the purchasing power of the colonial areas affected, and the international balance of payments? The American interests might join the international cartel, but then what would happen to the rubber consumers? Obviously, there is need for an international rubber agreement in which consumers will be adequately represented. Above all, the difficulty might be lightened by a greatly expanded consumption of rubber, which could arise only from the industrialization of backward regions, and a great increase in the use of automobiles and other products of which rubber is a component.

Tin, nickel, and other raw materials present similar problems. Complex as each of these problems is, no satisfactory solution of any one of them can be achieved if each is regarded as existing in a watertight compartment. In some cases a given nation is a consumer, in others its chief interest may be that of a producer.

A great gain would come if a single international agency having the needs of consumers as its guiding objective were substituted for

the complex of cartels and international commodity agreements, in which consumers seldom have a voice. The structure of international trade is interwoven in hundreds of ways, and arrangements made for one commodity cannot help affecting others, as well as the entire equilibrium of the world economy. Partial interests, almost always tend toward restriction of output; an expression of the total interest in expansion is needed.

It is desirable to bring together not merely the wheat growers of the United States, Canada, and the Argentine, but also the wheat consumers of Europe, and to confront both with the wool growers of Australia and representatives of the hungry masses of Asia. The needs of consumers and producers of rubber, tin, nickel, and many other products should be correlated with food requirements. It is necessary to evoke a detailed but coordinated picture of world production and consumption in its entirety. This cannot omit consideration of shipping, aviation, and other means of communication, nor can it be ignored by the International Bank for Reconstruction and Development or any other agency dealing with investment.

Finally, and most important of all, is the truth that progressive action must be taken by and within each nation, if international organization is to amount to anything. We cannot rely on a committee to do anything which those whom the committee represents will not support. What happens in the domestic economies of the United States and Britain is crucial to what happens in the rest of the world in the formative postwar years. If we have full employment, we shall supply a large share both of the goods the rest of the world needs and of the markets which their own productive progress will require. If, on the other hand, we are dominated by a grasping and monopolistic farm bloc, by isolationist politicians, and by industrial combinations that restrict output in the interest of price, we shall neither have prosperity ourselves nor permit any reality to world organization. What we *shall* have is another war.

## CARTELS

IT appeared in the previous chapter that one of the chief sources of friction between Britain and the United States has lain in the existence of plans for restricting production in the interest of producers. Many of these plans have governmental support. In some cases and aspects, each of the nations plays the role of a producer, in others that of the consumer. But in all cases the problem is the same. It is that of monopolistic restriction. Both peoples will have to make up their minds what to do about monopoly and how it is to be done. Their policies in this respect must be capable of coordination.

The public attitude toward monopoly and the legislation regarding it have followed a different course in the two nations. In the United States the effort has been to preserve or restore free competition in the interest both of independent enterprisers and of consumers. Great Britain, however, has never emphasized legislation of this nature, although monopolistic exactions may be combatted under the common law. One reason is probably that the British labor movement achieved strength earlier than that of the United States and took an active part in politics on the basis of the Socialist philosophy. Socialism holds that business combination is an inevitable development under capitalism, and that the function of the state is not to prevent it, but to assume ownership and control in the interest of the whole public. British labor has not been unaware of the evils accompanying monopolistic practices, but it has no enthusiasm for competition either. The remedy it proposes is nationalization. Public ownership has already gone further in Britain than in the United States. In great industries where it does not exist, the government frequently takes a hand through control or partial ownership.

People in all countries have been talking about an international government after the war. They are thinking about a government to

represent them and safeguard their interest in peace and abundance. But there was before this war, there is now, and there bids fair to be on an even greater scale after it, an international government of a different kind. This government operates in privacy and without elections. Its purpose is the enhancement of great private wealth. It wields the enormous power that goes with concentrated money. This it can do without much popular knowledge of its activities, because it builds its power by influencing the few rather than by giving an account to the many. The government in question, which operates primarily in economic affairs but also has an immense political importance, is that provided by international cartels.

The simplest possible definition of a cartel is to say that it is our old enemy monopoly, which we tried to make illegal in the United States many years ago, now streamlined and operating on an international scale. But if one goes beyond that simple statement, the definition becomes difficult. There are as many kinds of cartel arrangements as there are colors in the spectrum, and they shade into each other in much the same way. While technicians in the laboratory have been busy, with their marvelous ingenuity, the technicians of corporate law and business organization have been equally busy, and with equal ingenuity. Some of their products are just as complex as the new chemical compounds, though they have not been given equal publicity.

Corwin D. Edwards, of the Department of Justice, in a monograph prepared for the Senate Military Affairs Committee, roughly classifies cartel methods of organization in three groups, as follows:

1. *The Association* This is an old and familiar type of restriction of competition by means of a trade agreement among nominally independent firms. They may adopt rules and regulations to fix prices, limit and apportion output, allocate territories, redistribute profits according to a formula, or sell exclusively through a joint agency. This is the most vulnerable kind of cartel, since unless its agreements are enforceable under the law, the members may break their contracts or engage in chiseling. It is actually illegal in the United States, and is more prevalent in Europe.

2. *The Patent-Licensing Agreement.* This is a newer and often

more intricate device, depending on the legal monopoly conferred on the owner of a patent. When technological advance is rapid, as in the modern world, many important products, or the processes used in manufacturing them, are patented. When the basic patents are about to run out, an improvement, real or invented for the purpose of retaining control, can usually be devised. Agreements between various companies to license their patents to each other may divide either geographical territory or the right to sell specific kinds of products, they may control prices and output as well.

The intricacy of this kind of arrangement is due to the fact that it consists in a number of separate licenses or agreements covering particular processes, and there is great variation in the terms of such agreements. Yet all taken together add up to monopolistic power. For instance, Mr. Edwards points out that before the war "there were comprehensive patents and processes agreements between du Pont and Imperial Chemical Industries (of Great Britain) and between I. G. Farbenindustrie and Standard Oil Company of New Jersey. There was a gentleman's agreement between du Pont and I. G. Farbenindustrie by which each was to give the other first option on new processes and products not already promised to third parties. There was apparently a comprehensive working arrangement and certainly a series of working agreements as to specific products between Imperial Chemical Industries and I. G. Farbenindustrie. Around this central pattern were grouped various lesser alliances among other companies, and many special agreements among manufacturers of dye-stuffs, plastics, explosives, pharmaceuticals and other chemical products. The chinks of the structure were filled by numerous small patent-license contracts which contained restrictive features."

Note what Mr. Edwards is saying here. Two of the biggest companies in the United States, which ordinarily we think of as separate, were linked with the chemical monopoly in England and the chemical monopoly in Germany—and so with each other. All four formed the center of control for numerous other manufacturers of chemical products. Such products nowadays are primary in both war and peace, from the powder in our bombs to the colors in our

clothing and the medicines we take This gigantic monopoly parceled out the world market among the companies involved.

3. *The Combine*. This is a form of control through corporate ownership and contracts of varied kinds; it is sometimes more intricate and difficult to trace than even the licensing agreement. Often the two are combined, as where corporations that have exchanged patents own subsidiaries in common.

N. V. Philips is the name running through a large number of companies organized in different countries, which make and sell electric light bulbs, radio equipment, and electrical supplies Some of these companies are seemingly unrelated to each other, but there is unity of control through a common ownership. This control was before the war exercised by a Philips company in Holland, which in turn was controlled by a company with only ten effective voting shares. During the war the control was exercised by two groups—one presumably for the countries under the Axis, and one for the others The interests of the latter in turn were managed by two groups of trustees, one in Hartford, Connecticut, and the other in London, and by a holding company in Curaçao There is a probability that the whole business will be reassembled again as before when the war is over N. V. Philips as a whole also has contracts with other great organizations in the same business.

In addition to these forms of cartel organizations, one might cite the cartels that are held together by specific governmental support, or by international commodity agreements, like the rubber cartel previously described.

The importance of any plan for governing the activities of men is partly dependent on its extent. Geographically, cartels cover the whole world. Not every one includes every country—for there are special circumstances which necessitate omissions. For instance, it is useless to try to exercise the powers of an international monopoly in a country where the domestic business in question is not subject to monopoly in one way or another.

Cartels are important also in their extent over industries and products Any natural product of mining or agriculture, the ownership of which can be concentrated, is subject to monopoly. Any process



of manufacture or any fabricated product which can be held under patents can be monopolized. The degree of monopoly conferred by the necessity of heavy investment to enter an industry, as in steel, permits cartelization. And even though the industry which directly makes the product we buy is competitive, the chances are 99 in 100 that its costs contain a tribute to the cartel empire. Consider food, for instance. Farmers, of course, compete with one another—except insofar as the farm bloc in Congress holds up minimum prices. But farmers have to buy cartelized fertilizer, insecticides, agricultural machinery, electrical equipment, and many articles of which cartelized rubber forms an indispensable part. The tin cans in which processed foods are packed contain cartelized tin. The refrigerators in which we keep our food are subject to patent royalties. So are the electric bulbs which light our refrigerators and our kitchens. So are the patented appliances we use to prepare our food.

There is probably no more competitive industry in the United States than those which make textiles and clothing. But they have to buy cartelized dyes and other chemicals, and they need their share of metals, rubber, and all the other general necessities out of which cartels make their profit and build their power—not to mention patent-controlled rayon and Nylon.

The principal reason for any monopolistic device is to fix prices higher than those which would obtain without it. This fact is sometimes masked by price reductions made by cartels. The price reduction may result from lowering of cost. It may be necessitated by the desire to bring a competitor into line or to maintain sales in competition with a different kind of product which is not controlled. Of course the cartel is after the maximum possible profit, and occasionally it can make more by selling a larger quantity at a lower price than by selling less at a higher price. In all these cases, however, the price results from an administrative decision rather than from the impersonal forces of the market, and in most of them the price is higher than it would be if competition prevailed. Cartels charge at least as much as the market will bear.

There are many cases in which the prices are exorbitant. Tungsten carbide, used for edges of cutting tools, sold in the United States in

1927-28 at \$50 a pound. Then came an international patent-pooling agreement and a division of markets. The price promptly rose to \$453 a pound. It seldom went below \$225 during the depression thirties, and in 1940 was still selling at a maximum of \$205. After an indictment under the antitrust laws, the price in April 1942 ranged from \$27 to \$45.

A chemical plastic was sold to commercial molders for 85 cents a pound, while the very same product cost dental laboratories and dentists \$45 a pound.

Atabrine, a chemical substitute for quinine, was sold to the United States government for war purposes at \$4.50 per thousand tablets, by companies whose license under the patent terminates six months after the end of the war. Presumably they made a good profit. The same substance for a time cost civilian consumers \$12 per thousand, as sold by Winthrop, a company which obtained monopoly patent rights for the civilian market under an agreement with I. G. Farben, the German owner.

Consumers also suffer because the absence of competition deprives the maker of any incentive to improve quality. Sometimes he actually lowers quality, to get a larger volume of sales or to protect another product in which he has an interest. For instance, Corwin Edwards charges that General Electric reduced the life of lamp bulbs and discouraged bulb testing by purchasers. The lamp manufacturers have also been reluctant to introduce the much more economical and longer lived fluorescent lamps for household use. The du Pont Company, having developed a pigment which could be used either in paint or in textile dye, held it off the market pending a way to make it useless as a dye, in order to maintain the prices at which other dyes were selling. If it were to be used by paint manufacturers, it would have to sell at considerably less than the current prices of dyes. One of the methods proposed to make it unfit for dye, quoted from a memorandum of a conference on the subject, was as follows:

"It is known that certain resins and solvents are irritating to the skin, often causing dermatitis. It might be possible to formulate a CPC composition which will make textile materials irritating to the

skin." It would be interesting to women who have suffered from dermatitis as a result of contact of fabrics with the skin—and there have been plenty in recent years—to know whether this method was actually adopted, and whether some of the paint pigment may not have been "bootlegged" into the textile trade.

Akin to the lack of improvement or actual deterioration of products is the stifling lack of technological advance in the matter of new products. An enormous amount of research is done by companies belonging to cartels; big business loves to boast about the debt which science and technology owe to private enterprise. Never were we more plying with tales of the marvels of new products from the research laboratories than during the war, when the new products could not be bought. But much of the research is for the purpose of making minor modifications to hold patent rights. And while some new products and methods do see the light of day, some do not, and those which do are often held off for years in order to protect established investment from obsolescence. Numerous instances have been cited in the past. We now begin to hear that after the war we shall be offered the same old models and products, it will be a long time before the things offered for sale live up to current publicity.

In addition, the big concerns often discourage research by others who might turn up as competitors, and they are dead set against any research by government, which would be available to all.

It used to be said that, whereas internationals of labor had failed to preserve the peace at the moment of crisis, internationals of capital would do so. They not only did not do so, but they helped the German war machine to build its power, and assisted in weakening its enemies.

Germany has perhaps been the principal home both of cartels and of technological advance by industry. Almost every leading concern in other countries which participated in cartels was affiliated with a great company in Germany. Through intercompany licenses and agreements, the Germans learned our technical secrets and used them, while they often succeeded in preventing the development in this country, in England, or elsewhere of new processes that

they were exploiting. By territorial division of markets, cartels helped the Germans to build up their influence in Europe and Latin America. This story has now been told a number of times, in relation to synthetic rubber, optical instruments, and other critical materials

For instance, the American Bosch Corporation supplied its German affiliate with technical information based on experimental work by the United States Navy and the Signal Corps, which it received as a bidder for government contracts. This information became the basis of intertank, ground-air, and infantry radio communication in the German army. In 1938 Standard Oil of New Jersey gave I. G. Farben full information about its butyl-rubber process, but failed to elicit in return the technical information about I. G. Farben's buna process. Standard finally got the German patents in 1940, but never received the technical information, and had to work it out.

It was through cartel procedure that Germany brought the manufacture of arms and strategic materials in much of Europe under her sway. During the war, disguised and indirect cartel arrangements, maintained in the interest of renewing international monopoly in the coming peace, have presented formidable obstacles to the United States government in carrying on economic warfare and counterespionage, not to mention obtaining enough strategic materials or obtaining them at a reasonable price. Seizure of enemy property has been forestalled in some cases by the transfer of German corporate property to neutral or American companies, presumably with an understanding that it is to be transferred back after hostilities have ceased.

Just as support of appeasement sentiment before the war came from cartel sources in Britain and the United States, so now we shall probably see support from the same sources for a settlement which will maintain the power of German heavy industry. We may expect to see the cartelized companies and those whom they influence oppose any international economic agencies or any international government that may threaten to destroy the fabric they have

woven or to bring them under control in the interest of the public or consumers.

British cartel spokesmen have advanced their own plan for world peace—one based on universalizing cartels and giving them the support of the British and American governments. Lord McGowan of Imperial Chemicals has come out for the repeal of the Sherman Act in the United States. Sir Edgar Jones of the international tin plate cartel is promoting a World Trade Alliance, and has said: "If Great Britain and the United States will take the lead and get the producers of each main product to prepare schemes for world export regulation, then general employment can be insured." This would, he added, facilitate the regulation of production within each country. How cartel practices would promote the large production which would be necessary for an economy of abundance he does not make clear.

World-wide plutocracy is advocated as a desirable substitute for competition for markets among the great industrial nations. But it would not prevent Germany from preparing for a new war—and it is to be noted that cartels are heavily interested in military production. Nor would it prevent growing hostility between the big industrial nations on the one side and the less developed countries which they would seek to exploit on the other.

By monopoly, an economic government composed of privately owned international cartels would restrict access to raw materials and would make impossible achievement of freedom from want. It would of course be the enemy of democracy in any real sense. It would even, in the capitalists' part of the world, restrict freedom of enterprise. Some big businessmen who cry the loudest against government bureaucracy and in behalf of the sacredness of private enterprise are really intent on maintaining private business with a minimum of enterprise on the part of anybody but themselves.

This would, for a while, be a nice comfortable little world in which controlled prices would vary little, great aggregations of capital would be safe, improvements would be introduced with due deliberation, and there would be a large continual residue of unem-

ployed to check the enthusiasm of labor for rapid advance. It would be a world in which colonial peoples would progress slowly, if at all, out of their industrial backwardness. But it would also be a world in which new investment would lag behind the propensity to save, farmers would again get the short end of the stick, and in the end a crash would be sure to come, because people would not have the purchasing power requisite to buy even the limited products offered at monopoly prices. Capitalism would ultimately be just about as secure in a cartelized world as France was in 1939 behind the Maginot Line.

There are some Englishmen who wish Great Britain had a Sherman Act. These are the same Englishmen who want private enterprise to succeed, and believe with good reason that it can scarcely do so for long unless competition and the free play of markets are allowed to do their work in reducing prices, encouraging efficiency, and enlarging consumption. Even these Englishmen, however, do not for the most part believe that the welfare of the entire economy can be entrusted to private enterprise. They want governmental participation or controls in the numerous sectors where competition is undesirable for some reason, or is unlikely to obtain. And nearly all in Britain are suspicious of the American clamor for "free enterprise" under competition.

They are well aware that competition has not operated well enough in this country to enable us to consume all that we can produce. Under these conditions, complete reliance upon competition and private enterprise in international trade would subject them to the risk of an American-generated depression. Undesirable as cartels are, they would at least offer Britain some hope of stabilizing her international markets and of protecting herself against cut-throat competition of the sort which arises in depression. There is a substantial body of opinion in Britain which does not want to enter upon the precarious course of trying to abolish monopoly by legislation, but wishes rather to use it as an instrument of national and international planning, to tame it by regulation or public ownership. The movement for state ownership and control of basic industries is making headway all over Europe.

It is easy to recognize the dangers of cartels, more difficult to know what to do about them. Phrases like "abolish them" or "restore competition" are mere pious wishes unless an effectual method for doing so can be suggested. Still more fatuous are the continual urgings to "preserve free enterprise," heard from those who have no program for dealing with monopoly and frequently do not even mention it.

It was more than a half-century ago that the American people began to be worried about monopoly at home. Laws were passed and revised, agencies for investigation and control were set up. Under President Wilson's first administration an expert study of the problem was made, and ingenious new legislation was devised and enacted, with the passage of the Clayton Act and the establishment of the Federal Trade Commission. It would be reckless to say that all these laws have done no good whatever, yet the fact remains that monopolistic practices are still rampant in this country, and great American corporations have become an essential part of the international cartel network.

One difficulty is that, in the game of prosecution and defense, counsel for private interests are always two or three jumps ahead of the government. We decide to do something about the problem, make a careful study of everything business has done to which we object, and try to phrase laws that will prevent these practices without forbidding business to carry on at all. After a long fight, Congress passes some legislation, usually leaving open numerous loopholes. Then, if we can succeed in getting an administration which wants to enforce the law, the Department of Justice after due study and deliberation brings a few test suits. With long legal delay, these suits are fought up through the courts until finally the Supreme Court renders a decision in a particular case, which may or may not be a good precedent by which to know what can or should be done in other particular cases. But by the time the decision is rendered, the legal mentors of the corporations have discovered some new way of accomplishing the result their employers desire, which either has not yet been forbidden by law or cannot be prevented without another long and costly legal fight, the outcome of which is uncertain.

One trouble with the antitrust legislation is that, as long as private business is left with the incentive to do anything useful to the public, and with the power to do it, it is likely also to have the incentive and power to fix prices, limit output, restrict competition, and dampen enterprise. Since those who devised the Wilson program, for instance, did not wish to forbid the possible efficiency of bigness as such, they refrained from outlawing the purchase of assets by corporations no matter how big they might be, and placed few obstacles in the way of the ownership of one corporation by another. The Supreme Court, in its famous "rule of reason," opined that Congress did not mean to forbid all restraints of trade, but only "unreasonable" restraints. A long series of court decisions on the practices of trade associations have left open the door to all sorts of limitations of competition. And it is difficult to devise a plan by which we can continue to encourage invention by the patent system, and at the same time prevent the abuses of patents which modern monopolies employ.

The abuses of monopolies are not something alien to the profit system, easy to cut away from it if only we have honest officials and businessmen who are not bent upon economic wickedness. We habitually praise the profit motive as the source of all progress, and then, when it reaches its logical conclusion, we call it greed. However much businessmen may approve of competition in the abstract, the goal of almost every competitor is to outdistance and if possible to eliminate his rivals. A modern economy offers many opportunities for the success of a few in doing so.

Nor is the motive always or entirely the amassing of wealth. Competition is full of wastes which a conscientious manager naturally wishes to avoid. And too much competition may threaten the security of all concerned. Behind many an agreement to restrict production you will find a period when output was far greater than the market could absorb at prices that would maintain the competitors in business. The Spartan prescription of the orthodox economists that the internecine struggle should go on until only the more efficient producers are left, and prices come back to a level profitable to them, is not welcome to those who face ruin, to the



creditors of the concerns which are in danger, to the workers who must undergo unemployment, or to the governments which depend on the prosperity of business. On these accounts monopoly practices are usually phrased in terms of ethics, codes, and cooperation. The men who employ them often believe they are acting in the best interests of the community. It is significant that the modern cartel movement marched under the banner of "rationalization."

If we pit such strong motives as a generally sanctioned profit incentive, a deadly fear of losing economic security and even occupation, and a desire to do things in an orderly and planned way instead of practicing the manners of the jungle, against the negative, tardy, and often inept police resources of the state, we must expect something far short of a satisfactory solution of the problem. For these reasons, there is no cure for capitalist monopoly in any magic formula. It will not be banished quickly or without much trial and error.

As has been noted, international cartels cannot operate within countries where monopolies cannot control the domestic market. The first line of attack should therefore be by national action within the United States— as well as within each of the other nations where cartels flourish. The following types of action may be suggested.

1. *Enforce Existing Antitrust Laws.* The antitrust laws we have, though far from adequate, have been largely inoperative because they have not been vigorously enforced. Republican Administrations between 1920 and 1932 were sympathetic to big business interests, and were not impelled to move against combinations by any strong public sentiment. The first New Deal Administration in its attempt to cure depression even encouraged business control of prices and output through the NRA. Recent attempts to prosecute by the antitrust division of the Department of Justice have run afoul of conservative interests, and during the war were moderated by the necessity of the War and Navy Departments to depend on the big corporations for military equipment.

The virtue of vigorous enforcement, even though it cannot solve the problem, is that it puts monopolies on the defensive and so exerts pressure on them to watch their step and exhibit the best be-

havior of which they are capable. If the laws are actually undesirable, they should be amended instead of being ignored, and enforcement will stir the ingenuity of those affected to propose some better program for dealing with generally admitted evils.

2 *Devise Better Means of Regulation.* Regulation will never be effective as long as it must be dependent on specific legislation and actions in courts. It must be carried on administratively, and must be flexible enough to meet new conditions as they arise. The Federal Trade Commission was devised for this purpose, but it has not lived up to the hopes of its designers. Indeed, it has virtually given up any attempt to solve the monopoly problem and has devoted its energies largely to preventing the "unfair competition" of misleading brands and labels.

It has been suggested that every business engaged in international trade—and perhaps those engaged in interstate trade as well—be compelled to incorporate federally. Federal corporate charters would, by law, be granted only on certain general conditions drafted in the public interest and would be subject to renewal at stated periods. Such conditions might embody the principle that the corporation would have no right to engage in any activity which would compromise the fullest production and employment permitted by the current level of technology, the availability of materials, and the labor supply. A commission would be empowered to see that corporate practice lived up to these conditions in detail, to give full publicity to corporate affairs, and possibly to withdraw the corporate charter, if the corporation in question was persistently and knowingly guilty of violations.

If litigation arose in connection with this kind of regulation, the burden of proof would be on the corporation instead of on the government. The corporation would have to appeal to the courts to upset an administrative action, rather than the government appealing to the courts to forbid a corporate action.

3. *Break the Corporate Monopoly on Patents.* Many of the important patents on which cartels now base their power are of German origin. Most of these have been seized by the government and are now in the hands of the Alien Property Custodian. Former

Attorney General Biddle suggested that after the war these patents not be returned to the German owners, but be held for use in the public interest. After the last war we did not return German patents, but disposed of them to private companies, some of whom secretly represented the German owners, and most of whom used them (as they assumed the right to do under the patent laws) for monopolistic gain. Mr. Biddle's suggestion is a good one. We do not see how it can be executed unless the government retains the patents and licenses them to all on equal terms.

This, however, is only a half-measure, since it does not bear on future patents, and any concerns which do not hold the American patents that complement the German ones may hesitate to buck the great power of the existing monopolies. Some revision of the patent law is necessary which if possible will retain the incentive to inventors while preventing use of patents to restrain trade or restrict output.

In addition, a suggestion of possibly great benefit is to set up a public research organization with ample funds, dedicated to making inventions and improvements which may be employed by anybody. This would not forbid individual ingenuity or inventiveness, but it would provide a public competition for the great private research organizations from which many industrial improvements now stem, and which permit monopolistic exploitation of the brains of scientists and technicians.

4. *Use the Public Power to Compete.* In numerous important industries where monopoly practices prevail, the government has built for war purposes and now owns great productive facilities. The corporations, many of which are operating these plants as contractors, are exercising strong pressure to have the plants either closed down or sold out to private interests as quickly as possible after the war. They have been in the main supported by the Baruch report. As suggested by Harlow S. Person in *The New Republic*, the government should retain whatever plants are necessary for the purpose of ensuring full employment and fair prices. Public competition has been effectual in Sweden, and has shown what it can do in the United States in the TVA. The government need not necessarily

operate all the plants it owns; it can rent them to private contractors, but under such conditions that practices which are a detriment to the public shall not prevail.

.5. *Install Democratic Planning* Most important of all, the government should not leave the planning function entirely to those who operate for private gain. It should not be content with negative and regulatory measures, but should step in to supervise the constructive job which monopolists say and may think they are doing in rationalizing production, economizing resources, and stabilizing the economy. The main trouble with their activities is not that they attempt these things but that they stabilize on a level of prices higher than the technical arts would permit, and on a level of output lower than our productive resources, including the labor supply, would justify.

The government need not do this job in a bureaucratic or dictatorial fashion. But it is peculiarly fitted to mobilize the common interest of business, labor, agriculture, and consumers in full production and avoidance of depression. It can do this by calling together representatives of all the main interest groups, to supervise the preparation of a production program based on the needs of consumers and large enough to utilize our full capacity. This program should be continually revised as demands change in the retail markets and as productivity increases. The performance of industry in meeting it should be checked, and measures should be taken wherever necessary to increase production.

Such a program would be a guide for many of the activities outlined. It would, for instance, provide standards for the examination of the practices of federally incorporated companies, and it would indicate how much governmental competition was desirable, and in what lines. It would also be the criterion of a compensatory fiscal policy on the part of the government, or for a public works program to stabilize the construction industry.

In spite of any such measures which may be taken within individual nations, international cartels may persist and continue to exploit consumers, even within countries which have themselves overcome the evils of monopoly, if these countries are not large pro-

ducers of the products controlled by the cartels. Thus, the United States is dependent on foreign sources for tin, and could not merely by domestic legislation protect itself against the tin cartel. Other nations are much less independent economically than we.

6 *Establish a World Trade Board.* There have been numerous suggestions for an international agency to help stabilize world trade on an active basis and guarantee "freedom of access to raw materials." If this is to mean anything, it must at least mean the curbing of international monopolies.

If it is difficult to abolish monopoly by national legislation, it will be still more difficult to do so on an international scale, where there is no government having sovereign powers, and there is not likely to be any for many years. By international agreement, however, we can create an agency which can investigate and give publicity to any combination which fixes prices or limits output, and by the same means we can in many cases provide representation for the individual consumers, or for consuming nations, in such decisions. An agreement of this nature regarding coffee now exists between the United States and numerous Latin American countries. If the world board should be convinced that no limitation was desirable for any particular products, or that the consumers were underrepresented or flouted in its decisions, it could do much to stimulate new sources of supply. At any rate, it would not leave cartel transactions in the no man's land they now occupy, free to carry on in almost complete privacy and immunity.

An international trade board would have to maintain close relationships with other world-wide economic agencies, such as the International Bank for Reconstruction and Development, the International Food and Agriculture Organization, any machinery which is established to stabilize exchanges, and the agencies having to do with labor and standards of living. It might even work out a method of planning multilateral trade which could help to safeguard international balances of payments better than the exclusive bilateralism that prevailed before the war, and would at the same time encourage world-wide expansion of production and consumption.

NEED WE HAVE A  
DEPRESSION?

IF it were possible for the United States to offer Britain a credible assurance that this country will not suffer any profound depression in the visible future, the basis for agreement on almost every other economic problem would exist. The British would then believe that we were less likely to offer ruinous competition in foreign markets by exporting unemployment. They would be much less worried about their ability to achieve and maintain the necessary increase of their exports and to avoid unemployment and a deficit in their balance of payments. They would probably be willing to take a chance on multilateral freedom of trade and to participate in international exchange stabilization. It is therefore pertinent to inquire how good reasons they have for their fear of an American collapse, and whether it would be possible to remove their forebodings.

Economic science has not yet advanced sufficiently to offer any certain conclusions concerning the origin of depressions or their possible cure. Even if it had done so, the theory of the subject could not be covered in one brief chapter. There are numerous informed opinions, but on most of them not all qualified economists are agreed. The problem is still in the stage of research and experiment. Nevertheless, it would be incorrect to suppose that much is not already known or that there are no good grounds for choosing one type of policy rather than another. If we do the best we can on the basis of what is already known, we are likely to achieve a better result than if we give up in despair or proceed on the basis of ignorance and tradition.

The British fear of American depression rests in large measure on the belief that the United States will enter the postwar period with no substantial plan for avoiding a slump except a belief that unhampered private enterprise will automatically produce stabilized

prosperity. If this is in fact to be our policy, their fear is well grounded both in history and in theory.

All economists, no matter what their opinions or prejudices, would be obliged to agree that no economic order characterized mainly by private enterprise has ever yet succeeded in maintaining stabilized high employment or continuous expansion. Those who defend this type of order usually do so on other grounds, such as that it is progressive in the long run or offers a maximum of freedom. Before the great depression between the wars, some authorities believed that the order which we now call capitalist was becoming more stabilized, and that depressions would henceforth be of minor significance. Few now support this contention. At any rate, it is a matter of history that great depressions usually have followed great wars, after an interval of a few years. The experience of the latest depression, which is vividly remembered in England, strongly reinforces this historical observation. Indeed, it dramatically underlines the apprehension that if the United States relies upon private enterprise the experience will be repeated, for in 1919 war controls were abandoned with the greatest possible haste, and the ensuing decade was one in which American government was almost completely responsive to the supposed interests of business.

Nor does standard economic theory offer any reason for expecting a more fortunate experience in the future. Classical doctrines, it is true, are largely devoted to explaining how, under a regime of free competition and mobility of labor and capital, an automatic equilibrium would be maintained. Not even the most orthodox economist believes, however, that the assumptions on which this theory rests correspond closely with the economic institutions which actually exist. "Perfect" competition is a rarity. In the many industries where no actual monopoly exists, prices are often set administratively rather than automatically as a result of the forces of demand and supply. Some kinds of prices are much more rigid than others. Neither labor nor capital actually has a high degree of mobility. Farmers neither reduce their production nor move readily from the land when agricultural prices fall. When downward adjustments seem to be necessitated by economic forces, strong

resistance is opposed to reduction of wages, rent, and long-term interest.

The rigidities in our order seem to become firmer and more prevalent as time goes on. Meanwhile change, with its consequent need for readjustment, is hastened by the rapidity of technological advance. It might still be possible to arrive automatically at equilibrium by letting things take their course, but the delay is so long and the process is so painful that people are not willing to consent to this policy. At any rate, the classical theory offers no assurance whatever that severe depression will not be part of the balancing process, given the kind of economic institutions that exist in the modern world. These institutions are not likely to be altered so radically as to conform with the assumptions on which the classical theory rests.

It may be enlightening to look a little more closely at what happened in the United States after the last war, even though this can be done here only in superficial summary. The decade between 1919 and 1929 can be roughly divided into three periods. First came the immediate postwar inflation and deflation. Then followed a number of years of recovery which, with only minor interruptions, blossomed into the most spectacular prosperity the country had ever known. Third and last came the halting of this upward movement and the crash of 1929.

When the war ended in November 1918, there were 4,000,000 men in the armed services, and about one-quarter of the labor force, or 9,000,000, were employed in war industries. Demobilization was undertaken without any plan or indeed much forethought of its effect on the economy. More than half the outstanding war contracts were canceled within four weeks. Price controls were removed almost at once, and within thirty days no more priority orders were issued. (Even during the war, price control had not been extended to retail markets, and there was no compulsory rationing.) While a large though uncertain amount of unemployment was the immediate result, a marked inflationary boom began early in 1919. Prices soared, and credits were freely extended by the banks. This boom was not caused by the release of consumers' purchasing power for civilian wants deferred during the war. The shortages which had



existed occurred mainly in perishable goods such as food. War production had occupied only about one-quarter of the nation's capacity, and the production of durable consumers' goods like automobiles had not been seriously interrupted. The period of America's participation in the war itself was so short that no considerable backlog of demand had arisen.

Inflationary tendencies had been well under way before the United States declared war, and the rise of prices continued during its course. This inflation was stimulated by government borrowing, which rested largely on bank credit. Government bonds purchased by individuals or business concerns could be used as collateral for bank loans, and gold reserves appeared to be ample. With the ending of government controls, credit inflation took a new spurt. Loans and investments of member banks of the Federal Reserve System were increased by about two billion dollars between June 1919 and June 1920.

The immediate result was the speculative boom, which took hold, not only of the capital markets, but of trade and industry generally. Commodity prices rose rapidly. Businessmen ordered materials or increased their stocks merely because a profit could be made from the rise in prices between the time of purchase and the time of sale. Production soon rose to war levels and reached the limit of capacity. By the third quarter of 1919, factories began to fall behind in deliveries. As the overstrained railroads could not carry the burden, delays occurred in transportation. Retail prices soared so high that consumption did not keep pace with production.

Governmental fiscal policy supported this boom. A great bond issue was floated after the Armistice, and although domestic war expenditures declined, large loans were made to other countries for relief and reconstruction, which temporarily helped to maintain exports, particularly of farm products.

This boom suffered its inevitable collapse, which began gradually in 1920 and culminated with a precipitous drop of prices in 1921. Foreign demand for the largest crops American farmers had ever produced began to fall off. As great a volume was exported as before, but only at rapidly falling prices. Business concerns found them-

selves embarrassed by large inventories bought at high valuations and carried on bank credit, which they were no longer able to sell at a profit. Bank loans were reduced, not only on this account, but because the volume of outstanding credit had risen close to the limit set by the existing reserves. Rediscount rates of the Reserve Banks were increased. For the Federal Reserve System as a whole, rediscounted loans fell from their maximum of \$2,801,000,000 on October 29, 1920, to \$397,000,000 in August 1922. Federal Reserve notes in circulation declined by more than \$1,000,000,000 during 1921. Unemployment and restriction of industrial production of course occurred. The main characteristic of the slump, however, was a sharp deflation of prices and reduction of inventories accompanied by operating deficits which occasioned many bankruptcies.

While there is some danger of a repetition of this experience, a number of important differences now exist. Price control during war was this time much more extensive and effective. Inflationary tendencies were checked during its course. Bank credit was not utilized for the flotation of war loans, since government bonds were not accepted as collateral from commercial or individual borrowers. The banks instead purchased large amounts of government securities outright. If they continue to pursue a conservative lending policy during the reconversion period, they will have ample resources with which to counteract any deflationary tendency.

The danger of inflation this time arises mainly from the existence of large backlogs of consumer demand for automobiles and other durable goods, and the ownership both by business and individuals of immense reserves of purchasing power in the form of currency and bank deposits. There is a good deal of evidence to indicate, however, that these reserves will not be hastily spent in such a way as to set off a price boom, but rather will be held because of a general fear of depression. It is also possible that price controls will not be abandoned until supplies of goods are sufficient to render them unnecessary. War restrictions on instalment credit are not likely to be removed before there are enough goods to satisfy consumers' demands. It therefore appears possible to avoid an inflationary boom and an ensuing collapse if banking policy is intelligent and the nec-

essary governmental controls are retained. In that event, what might happen is a fairly smooth increase of civilian production as rapidly as productive facilities, materials, and manpower are released. This could persist until consumers' wants, deferred during the war, are satisfied. There is danger of speculative excesses in the stock market and in real estate, but, at least in the stock market, controls are available that did not exist in 1919. Margin trading can be checked or eliminated, for instance, and the banks are not eager to finance speculation. The greater peril is probably that unemployment ensuing from cessation of war production may restrict consumers' buying, and depression may come without a preliminary boom.

After the deflation in 1921, recovery began in 1922, and the upward course of economic activity continued until 1929, with only minor interruptions in 1924 and 1927. During these years private enterprise was almost entirely on its own. The government did attempt to aid producers by a protective tariff, but it is doubtful whether this had much to do with the prosperity of the period. The tariff did not, for instance, apply to rapidly growing industries like automobiles, or to building construction, the activity of which was a fundamental force in economic expansion. The Federal government had ceased to provide any stimulus to purchasing power, such as had flowed during the war from its spending of borrowed money. On the contrary, it was now reducing the national debt. Such stimulus as came from public sources resulted from the activity of state and local governments in building roads and other public works.

It is possible to point out several circumstances which apparently combined to bring prosperity, at least to the industrial and urban sections of the population. During the deflation of 1921, prices of agricultural products fell approximately to the 1913 level, whereas the quantity of crops raised remained substantially the same. This reduced the purchasing power of farmers, but at the same time it reduced the cost of industrial raw materials and the cost of the wage earners' food basket. The course of the deflation in industry was quite different. The prices of manufactured goods fell somewhat, but still remained about 63 per cent above the 1913 level, whereas the actual quantity of industrial output did fall to the prewar point.

Thus, industry maintained its prices by restricting its production, while agriculture maintained its production and let prices fall.

The consequence to the manufacturers was that, when revival came, the prices of their raw materials averaged about 25 per cent above 1913, whereas the prices of what they had for sale remained about 63 per cent above (Other industrial raw materials had much the same price experience as did crops.) This increased margin offered a substantial profit incentive. It also permitted the payment of wages considerably above the prewar level. While wages had been reduced during the depression, they had not gone down as rapidly as the cost of living. Wage earners therefore had a greatly enlarged purchasing power with which to buy manufactured products. Manufacturers were encouraged to produce these products, not only by the wider profit margin arising from the low cost of materials, but also by a gain in technological efficiency, which reduced unit labor costs.

If the outlay of consumers in the United States is stated in terms of constant purchasing power by taking account of the course of retail prices, it actually grew \$3,700,000,000 between 1920 and 1921 and another \$3,200,000,000 between 1921 and 1922. Such an active demand naturally stimulated enterprise. Important specific factors may also be identified. The automobile industry was a new one, and experienced a rapid growth. The investment in its factories and machinery, plus the sale of its products, yielded a growing amount of employment and wages. The same result flowed from the rise of other new but less important industries such as radio. Meanwhile, there was a long-continued boom in the construction industry, which not only made up for the shortage of building during the war years, but continued to satisfy an expanded demand. The activity of construction naturally stimulated the manufacture of building materials and the activity of other industries indirectly dependent upon it.

Between 1922 and 1926, the output of American industry, measured in physical terms, grew about 24 per cent. A steadily expanding outlay by consumers supplied the market for that portion of these products which was destined for consumer use. The remainder was

absorbed by the demand for buildings, machinery, and other capital goods which was provided by an annual total of new investment which increased from \$10,000,000,000 in 1921 to about \$16,000,000,000 in 1926. During the same period technological advance was unusually rapid, the average output per wage earner increasing more than in any previous years of which there is record. Prices did not change materially, but evinced if anything a declining tendency. There was no evidence of credit inflation. A moderate advance in wages was registered. Profits averaged high and dividends grew rapidly. So favorable did the situation look to most contemporary economists and businessmen that many believed prosperity would continue indefinitely.

The fact is of course that it did not do so. Many reasons have subsequently been advanced to account for the collapse. Although no one can be quite sure where the trouble originated, hindsight can point out a number of rather obvious sources of danger. In 1927, the construction boom began to taper off. There occurred in that year not only a drop in new construction, but a reduction in new investment in producers' goods. Thus the private capital investment which had been a stimulating factor began to waver. In the same year, the total outlay by consumers showed the first drop since recovery had begun. There were also signs that the automobile industry was approaching the limits of its rapid growth. It was ceasing to be a "new" industry and was becoming stabilized.

These important danger signals were either unknown at the time or were disregarded because profits remained high and the prices of shares were shooting upward in a speculative stock market boom. The speculative fever and the free spending which it stimulated doubtless had something to do with the temporary recovery that followed the 1927 recession. Nevertheless, building construction continued on a downward course, and other types of production turned downward months before the crash on the stock market. While the events in Wall Street no doubt made the ensuing depression more serious than it otherwise would have been, they do not appear to have caused it. Nor was the depression caused by any decline in profits or by any slackening of technological advance.

Prices showed no apparently inflationary tendency. No stringency of bank credit affected business activity, at least until long after industrial production had begun to fall. The causes, whatever they were, were more fundamental than any of these.

Such figures as we have indicate that the purchasing power of consumers was not keeping pace with the capacity for making products offered for sale to them. Technical improvements permitted manufacturers to turn out a greatly enlarged product with fewer wage earners than before the war. For the first time in the history of this country, the number of wage earners engaged in factories actually declined during a period of prosperity. The numbers in agriculture also became fewer. Employment in other occupations expanded enough at the same time so that there was no serious crisis of unemployment, but a substantial amount of joblessness nevertheless existed. Those wage earners who had jobs enjoyed a purchasing power somewhat increased by higher wages and lower prices, but their gain was not so rapid as the increase in the margin between costs and sale prices and in the enhancement of profits. At the existing levels of real income available to the mass of consumers, the markets for such expensive products as new houses and automobiles apparently became saturated. At that point, expansion of new investment in these industries ceased, and this in turn reduced consumer income and outlay. This is a brief summary of an hypothesis which cannot be proved, but which is in apparent conformity with such facts as are available.

How does the situation after this war differ from that in the twenties? Not only is there doubt that private enterprise, unaided by planning or governmental measures, will be able to avoid an eventual depression, but also a good deal of skepticism that it can even maintain expansion for as long as six years, as it did after 1921. The productive capacity of the country, the volume of employment, and the national income have all been increased tremendously during the war. While we need not expect that all those in war industries will wish to continue to work for wages, production and the national income will have to remain at a level far above anything known before the war if there is not to be a large amount of unem-

ployment. It is uncertain whether there will develop this time a disparity between the prices of raw materials and the prices of finished products like that which enhanced the profit incentive after the last war. It is also uncertain whether the purchasing power of labor will be similarly increased. Above all, there seem to be no new industries which can play the role of automobiles, radio, and others in attracting investment and expanding employment. Airplane production, even with the best possible fortune, is certain to suffer a considerable shrinkage.

There is a possibility that industry can be active until deferred consumer demands are supplied. But this is hardly likely to take more than two or three years. No doubt there will be a revival in housing construction, but it is uncertain how long a building boom can last unless we go in for rebuilding cities and slum clearance on a large scale, as other nations are likely to do. Reconstruction in foreign nations will stimulate exports of steel and other capital goods, insofar as loans are extended to finance these exports, but we cannot continue long to sell more goods abroad without buying more in exchange. The ability to do this depends in turn on the size of our domestic market. We cannot rely on the rest of the world to guarantee prosperity in the United States. Rather, we must insure prosperity in the United States in order that the rest of the world may thrive.

We have one great advantage which did not exist after the last war. There is now some appreciation of the fact that a problem exists, whereas then few gave any thought to the matter. Also, there are now better formulated ideas concerning the nature of the problem. These ideas, too, rest upon a much larger body of statistical knowledge. During the last war, not even the best informed experts had more than the vaguest idea of the size of the national income, the amount of consumers' spending, the numbers employed and unemployed, or the total of new capital saved and invested. Though our information in these fields is still far from perfect, it is sufficient to offer us something to work with in analyzing the problem. If all this mental equipment is to be of any use, it must, of course, be applied in terms of national policy. There are now substantial forces

representative of labor, management, and agriculture which are concerned that this should be done. Though public opinion is still far from being alive to the issues involved, it has enjoyed a liberal economic education during the past quarter-century and is not unresponsive to new ideas

Those at work in the field have already indicated how we may go to work to understand the situation in terms concrete enough to make intelligent discussion of policy possible. The first thing to do is to make an estimate of the size of the labor force which is likely to want paid employment in some given year when the war is over. Population figures from the Census Bureau offer the basis for doing so. Estimates may differ in detail according to the assumptions employed, but the discussion is taken out of the realm of mere guess, and is limited by a fairly narrow range of probabilities. We have a figure for the money value of the total product turned out by those at work in a prewar year. Therefore we can tell what would be the total product necessary to provide employment for any given number of persons after the war, if prices and productivity had not changed. This estimate must of course be increased by an allowance for the growth of production per worker. Estimates of this growth may be based upon past experience. Allowance can also be made for price changes, as well as for any change in the length of the working week. The final result of all these estimates is a figure for the amount which it would be necessary for the nation to produce if everybody seeking work were to be employed.

With such a figure in hand, it is possible to proceed to the next question—namely, where the purchasing power to absorb the requisite total of product is going to arise. Expenditures may be classified under three main heads. First, there is the spending of individual consumers. Second, there is the spending by business for new capital goods. Third, there is the spending by government. Together, these three sources of spending must provide enough money to purchase the total product. If they do not, some of those seeking employment will be out of work.

It appears axiomatic that, no matter how much is produced, enough will be paid out during the process of production so that



the recipients of this income, taken as a whole, will have enough money to buy the total product. The selling price of any article is made up of all the costs that went into its production, plus whatever profit may be made. All the money received for its sale is therefore distributed to somebody and can be spent. Even the government, as a recipient of taxes or loans, comes into this picture. The oversimplified form of traditional economics would have assumed that, since sufficient purchasing power must exist, it would all be used, and the total product would be bought. According to this theory, the only problem of supplying full employment was to obviate friction or obstructions in the markets for the purchase and sale of goods and in the formation of prices. More realistic students of our economy have observed, however, that the existence of sufficient purchasing power does not ensure that it will all be spent. It is quite obvious that the amount government spends depends upon decisions that often are not closely dependent upon the amount it collects. It is also true that the amount business invests is not determined solely by the purchasing power at its disposal, but rather by its estimate of the chance of profitable return on the investment.

One estimate of how much business and government are likely to spend may be based upon their performance in the past. If we assume that their spendings will bear the same proportion to the national income as before the war, we can arrive at an estimated total for their expenditures under a national income big enough to provide full employment after the war. The remainder must then be spent by the individual consumers, if enough is to be bought. We can discover how much will be available for the spending of individual consumers on the basis of the estimates made for the other figures. But, of course, consumers save as well as spend. If their past savings habits persist, they will not spend enough to consume the whole product. The result of almost any calculation like that outlined indicates that there must be a change somewhere in past habits if anything like full employment is to be maintained, given the high productive capacity which will exist. Either business must invest more than it has been in the habit of doing, or the government must

spend more, or consumers must save less. Of course, some combination of the three might turn the trick.

The National Planning Association—a nongovernmental, non-partisan organization controlled by prominent businessmen, labor leaders, and agricultural leaders—has made an interesting attempt to budget the entire national economy for full employment, using the type of method outlined. The specific figures it presents are tentative and may be accepted or rejected by others, but they serve to illustrate the nature of the problem. It calculates that the total labor force in 1950, excluding those who may be temporarily unemployed while moving from one job to another, will be approximately 60,000,000. The national product of such a force, it estimates at \$170,000,000,000, on the basis of 1941 prices. If business invested as large a proportion of the total product as it has done in the past, its spendings under an income of this size would be approximately \$24,000,000,000. Governmental expenditures, calculated on the same assumption, but modified for the additional costs which will follow the war, such as interest on the national debt, larger military establishment, and so forth, would be about \$25,400,000,000. The remainder, or \$120,600,000,000, must be spent by individual consumers if the account is to balance.

Consumers will receive, if the national product is of this size and if business and government make the estimated expenditures, total income payments of \$131,200,000,000. After paying taxes they will presumably save something. Assuming tax rates to be unchanged from 1944 and saving habits to be the same as before the war, they would have left to spend about \$99,800,000,000. This compares with the required spending of \$120,600,000,000. Obviously, it is far from enough. This discrepancy shows up on the other side of the books in two items—first, an excess of individual saving over the amount drawn by business from such saving for new investment, and second, a surplus in the budget of the Federal government.

Inspection of such figures does not lead to any assurance that the problem will solve itself without the adoption of appropriate policies. Somehow or other, a balance between income and expenditure must be achieved if high employment is to be maintained. Taxes

may be reduced, thus leaving consumers more to spend, and at the same time government may spend more. These two changes together might serve to compensate for a deficiency in private investment. It is an abstract possibility that business investment would be so much higher than in the past that no change would be required in the other items. This, however, does not seem likely. At least it would be prudent to keep accurate information about the volume of private investment, to forecast its future, and to be prepared to adjust other types of spending accordingly. Naturally, all the figures in question will be subject to correction when the crisis approaches, and may be estimated with much greater accuracy after reconversion is completed.

If it is going to be necessary for the government to spend more, there are many things it can do which will provide useful products. Nobody wants it to spend merely to provide jobs. Work for which there is no real demand either on the part of individual consumers or in the interest of the public welfare is pure waste. There will, however, be a legitimate need for many types of activity not likely to be undertaken by private enterprise, at least without governmental organization or subsidy. New regional developments like the TVA constitute one of these. Slum clearance, replanning, and development in urban regions is another. Desirable extension of education and health services would make considerable demands on manpower. Airports, roads, bridges, and all other familiar types of public work could readily be expanded. It is unlikely, however, that with the immense productive power which will exist, government can wisely spend enough to provide nearly all the needed demand. The great problem, at least in the United States, will be to raise levels of consumption for goods and services customarily turned out by private enterprise. This will not mean that everybody must buy more than he wants and can use. There is an immense opportunity for further satisfaction of ordinary needs on the part of those large sections of the population at the lower income levels.

For this purpose more is necessary than merely budgeting the national income and expenditures and observing whether discrepancies are likely to arise. Something must be done to reduce the

prices of generally used commodities as rapidly as the costs of production fall, or to increase wages in the same proportion, particularly those in the lower brackets. In practice, it would probably be easier to adopt both policies at once. There are some who think that private industry itself will see the advantage of such a course and will follow it. Many supposed that in the twenties it was actually doing so. Whether it did or not, the prices of many desirable products were not brought low enough so that anywhere near all the people could have what they might legitimately have wanted. Housing of high standard is an obvious example. If all the available labor power is to be utilized until all members of the population have everything they want and should have, many things must be done which obviously were not done in the twenties. There must be better organization of industries like building construction. There must be more accurate knowledge of costs, prices, wages, and profits, and of their resultant in the flow of purchasing power. Monopolistic restrictions must of course be removed, wherever they tend to reduce or obstruct the flow. This range of problems is an extremely complex one, to which sufficient study has not yet been devoted.

In view both of the intrinsic difficulty of the task and of the ignorance, prejudice, and interest that would have to be overcome even if we could now be sure exactly what it would be desirable to do, we obviously cannot give the British any firm assurance that we shall maintain full employment and avoid another postwar depression. Indeed, they could not give us any such assurance on their own part. What we legitimately could do, however, would be to offer them some evidence that we have resolved to proceed as rapidly as possible with the job and are actually at work upon it. The basis for such assurance does not at this writing exist either in any commitment of the national government or in the outlook and expressions of the majority of those who now control American industry. Most of the work so far done in this field has been unofficial and representative of minorities. Some of these minorities are potentially influential, but much remains to be done before it could be said that their views are generally accepted and are likely to guide action.

The next few years will be critical ones in this respect. The British

seem to have made up their minds to go in for national planning and have officially committed themselves to a full employment policy. If we adopt a similar course, they will have much more confidence in Anglo-American economic cooperation. If we do not, they are likely to conclude that we must experience another depression before we seriously undertake the job of taming our economy.

## RISKS OF FULL EMPLOYMENT

AMERICANS are likely to be surprised to discover that informed British opinion fears a depression in the United States more than one in England. At first glance British economic difficulties seem far more menacing than ours. They have to worry not only about the management of their internal economy, but about obtaining food and materials from abroad. If Americans are uncertain about ability to sustain full employment, should not the British be even more so? Does it not indicate some overconfidence on their part when they assume that they will be able to achieve success, provided we do not fail?

One general comment may be made at the beginning. The British problem seems now to be one of overcoming scarcity. Their difficulty will be, at least for a considerable number of years, to obtain enough food, clothing, houses, and all the other essentials of civilized life. What worries Americans about the economy of the United States seems to be the exact contrary of this. For many years before the war we were technically able to produce many more goods than we could distribute to consumers through the ordinary mechanisms of the market. The war itself has greatly augmented our productive capacity. It is feared that after reconversion is completed and the backlogs of demand are satisfied, we shall again have to struggle with unmarketable surpluses of goods and labor. To the naive mind it may appear more fortunate to be faced with a surplus than with a scarcity, but in the type of economy to which both nations have been accustomed in the past, the reverse is true. Private enterprise, utilizing technical skill, thrives on scarcity. It is always easy to create more goods if there is a demand for them at prices that will yield a profit to the producers. On the other hand, enterprise and technology before the war struggled for years under the handicap of insufficient market demand and were unable to offer enough jobs. This does not mean that all members of the population had what they needed or

wanted. It merely means that we had not learned how to provide consumers with the necessary purchasing power.

Nevertheless, there are risks associated with the British full-employment program. In the first place, it may not be achieved for any great length of time. In the second place, if it is achieved, it may involve untoward consequences. It is necessary to examine some of the doubts concerning it which have been expressed both in England and in the United States.

The pledge to maintain a high and stable volume of employment was made under the most solemn circumstances. The government White Paper on employment policy which contained the pledge was issued just before the British army set forth to invade the Continent. Prime Minister Churchill and Ernest Bevin, Minister of Labour, addressed the troops on this occasion and emphasized this promise, among others, to create a better world for those who should return. Nevertheless it is charged by spokesmen of the Left, like Aneurin Bevan, that this was merely a device to sustain morale and that if the Tories regain power, they will forget the promise. Somewhat similar promises were made during the last war and forgotten after it. Many believe that even if the Conservatives remain loyal to the goal itself, they will not favor the means necessary to achieve it. Neither the rank and file of businessmen nor the propertied classes are inclined to support drastic change. They do not really understand the problem, and now the war is over they will be eager to abolish all state controls and strictly to limit governmental activity. They may find support for this attitude from a public weary of rationing and all the other disciplines of war.

Even if the government adopts the methods described in the White Paper, these methods may not be sufficient to accomplish the result. They have been severely criticized, not only by Socialists, but by such keen economic analysts as Sir William Beveridge. The objective on which nearly all agree is to maintain an expanding and steady expenditure sufficient to create a demand for all the goods that can be produced. The chief danger, according to the Keynes theory, is that that part of the expenditure of the country which takes the form of new investment will shrink, and thus not as much

will be invested as is being held out of the stream of purchasing power by saving. One of the measures recommended in the White Paper is therefore to ascertain in advance what the total of investment is going to be. As far as government expenditures are concerned, this is not difficult. The White Paper recommends that the government obtain the cooperation of private industries in collecting information concerning their investment plans. Such cooperation may not be easy to elicit. It may be necessary to install more governmental regulation even to compile this information than business or its political representatives would sanction.

If it appears that a contraction in trade and investment is in prospect, the government expects to stimulate new private building and purchase of productive equipment by pointing out that it is to the advantage of investors to do their buying when prices are sagging and labor is abundant. This is an old idea, first promulgated by President Hoover in the United States early in the great depression. It is, however, contrary to the habit of most businessmen and, in spite of its apparent advantages, is difficult to effectuate. When people are worried about business prospects, they are not usually in a mood to expand their commitments. Rather they wish to safeguard their enterprises by remaining as liquid as possible and keeping on hand a large amount of ready cash. Credit is often tight at such times, and money-market conditions may not be favorable for the flotation of new security issues. Even if money is available and the necessary policy is approved, purchasers of new building or equipment may wish to wait until prices have reached the bottom rather than buying on the down grade. It is particularly difficult to induce businessmen to increase current output on a falling market, for this may result in loading them up with stocks that will depreciate before they can be sold. It may be easy to prove that if everybody would follow a policy of expanding operations under such circumstances, all would benefit, but it is extremely difficult to convince any given individual that others will do so. Something more powerful than argument would seem to be necessary.

The other chief instrument of stabilization outlined in the White Paper is the familiar project of varying the amount spent for public



works to compensate for the fluctuations in private business. It is proposed that, when business is active, public expenditure should be decreased and projects for governmental construction should be held back until unemployment appears. This has almost never been done in the past, and it would be exceedingly difficult to accomplish, especially in circumstances such as those of postwar Britain. When business is active, there is a real need for expanded public construction. It is not likely that the British people would consent to go without housing and other urgent necessities in order to provide an advance program of public works against some hypothetical depression. Also, it is difficult to stop long-term construction projects in mid-course.

Even if the construction industry could be expanded and contracted at will in order to smooth out the fluctuations of other economic activities, this would not provide the necessary stabilization of employment. As Beveridge points out, you could scarcely expect masons or carpenters, when thrown out of work by a restriction of building, to find jobs making clothing or automobiles, nor could you expect factory workers to acquire suddenly the skill of building mechanics during a trade depression. In any progressive economy there must always be some people changing jobs and learning new skills, but it is wise to ask them to do this only when a relatively long period of employment is in prospect, and not to compensate for the swings in the trade cycle.

In the United States it has been suggested that a better objective would be to stabilize the construction industry itself. This alone would be a difficult task. Unless the private sector of the industry could be much better planned than in the past, this endeavor would encounter the same objections to the variation of public expenditure on construction. In a previous chapter we have examined Sir William Beveridge's program, which aims not at compensating for the booms and depressions of private enterprise, but rather at eliminating them by advance planning administered through a number of new governmental activities. There is little sign that British business would favor such drastic changes as he proposes. Socialists in the Labour Party are not satisfied that even the Beveridge program,

would be sufficient. They believe that before the end can be attained, it will be necessary to nationalize all the industries which form the backbone of the economy so that long-term public policy may be really effectuated.

All these are theoretical considerations which may have little meaning in the actual circumstances likely to confront Great Britain for some years after the war. Individual purchasers will be eager to buy everything that can be made for their consumption. Governmental reconstruction will necessarily involve large expenditures sustained over a long period, and export demands for relief and repair will be urgent. For a transitional period of perhaps five or six years, full employment will be the natural result, entirely aside from any intricate plan to assure it. Indeed, there is likely to develop a shortage of manpower. The considerations which we have been examining will probably apply only when the transitional years draw to a close. One concrete danger to be anticipated at that time has been pointed out by *The* (London) *Economist*. What will happen to the construction industry when the rebuilding of Britain has been completed and the large housing program begins to taper off? *The Economist* argues that, in order to avoid a slump at this juncture, it would be well not to proceed too rapidly with too ambitious a building program. It would require a good deal of optimism about the foresight of the British people, however, to suppose that in response to such counsels of caution they will not demand all the new houses they possibly can get in the shortest possible time.

Theoretically, there is no necessity for the disaster which *The Economist* foresees actually to happen. If the time ever comes when Britain no longer needs a large volume of new building, the construction workers can be employed making something else that is wanted. If, finally, the people really want no more of anything that can be turned out by productive labor, they can enjoy an unprecedented amount of leisure, recreation, and artistic pursuits. Such a Utopia, however, could scarcely be maintained without quite a different economic organization from any to which we are accustomed.

Whatever the inadequacy of any specific set of measures proposed for achieving full employment, it must be remembered that the

political background of the discussion in Britain is quite different from that in the United States. Americans who object to measures advocated for the purpose in view are likely to do so in order to strengthen the doubt that full employment can be achieved and to prove that the effort to achieve it is not a suitable guide for governmental policy. In Britain history has precluded this sort of contention. The discussion concerns rather which party or group in the community can be trusted to seek the aim and which sort of method had best be applied. The aim itself has been accepted.

If the arguments of those who most severely criticize the war-time White Paper are valid, what they prove is not that full employment is impossible, but rather that it cannot be attained without a large measure of socialization or, at least, of more governmental intervention than the Conservatives are willing to favor. For the Conservatives to argue that full employment is incompatible with private enterprise would be to confer a political advantage on their opponents, who are striving to prove precisely this point. It would be difficult for any political leader in Britain to convince a majority by contending that private enterprise is so desirable in itself that the risk of depression and mass unemployment must be incurred in order to preserve it. Those who have suffered from unemployment in the past and may be subject to it in the future are not long likely to remain convinced that freedom for the seeker after profits is identical with freedom for the worker, if the latter is not to have the opportunity to earn a living.

As a consequence, it is obvious to nearly all that if those who support a private enterprise economy retain any power, they can use it only on condition that they can devise and apply means of preventing unemployment. If in the long run they are unable to do so, political power will probably pass into the hands of those who believe it necessary to restrict private enterprise or even to abolish it altogether. Stubborn and opinionated though British Conservatives often are, they have also shown a genius for compromise by the acceptance of new social institutions in order to avoid more drastic conflicts. What is likely to happen, therefore, is that a real effort will be made to stabilize employment, no matter what party is in

power, and that whatever proves to be necessary will ultimately be done.

The danger that full employment may not be achieved seems to be negligible in the short run, and even in the long run the interplay of political forces is of a kind which is likely to minimize it. There is, however, another danger, acknowledged by most of the theoretical proponents of full-employment policies. This is that a condition of full employment, once attained, might not be perpetuated because it would by its very nature generate economic forces which would undermine economic stability. It is feared that such a condition would favor inflation and uncontrollable increase of prices, which would eventually lead to a collapse. In Britain inflation would be particularly disastrous, especially if it were not simultaneously experienced by the rest of the world, because it would diminish British exports. This in itself would cause unemployment.

Those who apply traditional economic doctrines to public finance expect inflation to follow large spending by the government, especially if this spending is based upon governmental borrowing. They assume that this is the method which supporters of the Keynes theory expect to utilize, and many of them believe that the advocates of a full-employment policy themselves desire inflation and expect to produce it by such deficit financing. It is now, however, fairly well established both in theory and in practice that governmental spending of borrowed funds does not necessarily and in all circumstances produce inflation, if by inflation is understood a rising spiral of prices and the accompanying speculative activities which eventually lead to a collapse. Deficit spending is advocated, to be sure, as a means of enlarging the amount of purchasing power in circulation. It may not actually do so if it is accompanied by a shrinkage of activity in the private sector of the economy. In that case its purpose is defeated. But even if it is successful, generally rising prices will not result unless the economy to which it is applied is already producing at or near capacity. In that case, something like full employment will already exist, and deficit spending would not be employed to achieve it. The real purpose of enlarging total expenditure is not to increase prices but to increase production and consumption. A governmental

fiscal policy adopted to maintain full employment should not of itself be inflationary. It is simply counterdeflationary.

The real danger of price increases under full employment is of a rather different sort. At a time when almost all workers can obtain jobs and when employers are kept busy trying to fill orders, it is easy both for trade unions to exert their bargaining power to obtain higher wages and for business concerns to jack up their prices. But if productive capacity is already being fully utilized, genuine gains registered by one group of workers or one industry can only be at the expense of others. Higher real wages or profits can be made only when productivity is increased. Of course, wage earners may gain a somewhat larger share of the national income at the expense of profits, but this opportunity is strictly limited unless total production can be enlarged.

During the war, both the British and the American economies experienced the danger arising from this source. It was curbed partly by heavy taxation, partly by campaigns for popular subscription to war bonds, and partly by strict price and wage controls. Many doubt whether similar measures would be politically feasible if the patriotic stimuli were absent. Of course, the danger would be less acute in a peacetime full-employment economy, because the government would not be utilizing such a large proportion of the nation's productive capacity for products to be destroyed on the battle fields—in other words, for goods that are never offered for sale. Nevertheless, some means of preventing excessive wage demands and price increases would have to be devised if an unwholesome rise in the price level were to be avoided.

It may be argued that the real danger in such a development would not be that of a general and widespread rise in prices and wages, but rather that of increases in the sectors holding the more advantageous bargaining positions, at the expense of less fortunate members of the community. Obviously, if capacity production had already been achieved and an intelligent fiscal and banking policy were being applied, neither the government nor the banks would go on increasing the total amount of purchasing power. Thus there could be no expansion of demand as a whole in relation to supply as

a whole, and general inflation could not occur. What would happen instead would be that the strongest unions and the more favorably situated businesses would enhance their rewards at the expense of those who found it more difficult to increase their incomes and yet were being obliged to pay higher prices for what they bought. Those who would suffer would be persons living on pensions and other kinds of fixed income, civil servants, and employees in more highly competitive industries. Eventually, the more powerful groups might "price themselves out of the market" so that unemployment would increase. In such circumstances, the standard remedy of expanding the total of purchasing power would be inappropriate. In any case, the outcome would be just as undesirable as inflation itself.

As far as wages are concerned, one possible remedy would be the application of wage ceilings enforced by government. This remedy, however, could scarcely be applied without the consent and the cooperation of the labor movement, except in a political dictatorship which was ready to suppress the unions. Labor's consent to wage ceilings can be obtained during war, as has been proved in both Britain and the United States, although the unions may differ from other interests as to where the ceilings should be set. In time of peace, this consent would be far more difficult to elicit, especially if private enterprise persisted and the employers were making profits. Beveridge suggests that the unions could be induced to accept, as an accompaniment of full employment, universal arbitration of their wage disputes, on condition that the employers were required to adopt standard accounting procedures and make full disclosures of their profits to the arbitrators. In these circumstances, arbitrators could justify to the wage earners any refusal of demands which could not be met out of existing profits, and which would necessitate increase in the prices of the product. It is not out of the question that some such system would be acceptable to labor, and that it would serve the purpose, provided trade union discipline were strong enough to check unruly and self-seeking factions.

Price regulation would also follow as a matter of course. Theoretically, it need not be applied in the more highly competitive industries. But it certainly would be required in industries controlled

by monopolies or characterized by monopolistic practices. Beveridge makes the point that whether we have full employment or not, something must be done, and undoubtedly will be done, either to break up monopolies or to control them in the public interest. Full employment would not create this problem, but would simply render its solution more urgent. It also may be true, as he says, that once a large market were assured and the risk of depression were minimized, business would have much less motive to resort to restrictions of output. For such restrictions are often adopted as a protection of financial security in the face of insufficient demand rather than as a means of gaining scarcity profits. Certainly it would be easier to convince producers that they stood to gain from large production and low prices if they could be sure of steady and expanding purchasing power for their products.

Pessimists believe that human habits cannot be changed, and hence are skeptical of new institutions which would not operate well if men and women behaved under them as they have done under old institutions. It is indeed wishful thinking to suppose that people will suddenly begin universally to obey the Golden Rule. Nevertheless, it is quite unscientific to suppose that ways of thinking and acting have no relationship to the cultural environment in which men exist. The bargaining habits of trade unions and the restrictions of output by both labor and management are natural responses to an economic environment in which there is little security, which is subject to long periods of misfortune, and in which the means of life do not expand rapidly enough to offer reasonable assurance of the satisfaction of ordinary wants. These habits would doubtless tend to persist for awhile if the environment were changed, but there is no reason to suppose that more suitable modes of behavior would not in the end arise from a different type of experience.

Any thinking person can see that it would not be for the self-interest of any organization of labor or group of employers either to induce inflation or to incur the wrath of the community as a whole by exploitation of its power. It would not be necessary, in a full-employment economy, to inculcate either a passive submission or a saintlike self-abnegation in order that the system might operate

with reasonable satisfaction. It would merely be necessary to bring about teamwork under a new set of rules. This would not be easy, but it certainly would not be beyond the bounds of possibility.

We have not, however, exhausted the list of possible dangers to a full-employment economy. There is another which is more subtle and is less well understood by economists themselves, but which may lead to unexpected trouble. It is suggested by what happened in the American economy between 1922 and 1929. On the surface, it looked as if this economy were in a fairly stable condition of equilibrium and would remain prosperous without serious interruption. It certainly was expanding. There was no apparent disparity between savings and investment. Demand was active, and inflation of any ordinary sort was absent. Prices in general were steady while production and consumption increased. There was a moderate amount of unemployment, but this did not seem to offer great danger to the future, and it might have been obviated if the government had seriously tried to do so. Yet subsequent experience seems to prove that internal flaws were all the while developing. A distortion of one kind became exceedingly obvious when wild speculation developed in the capital markets, but this was probably not the only or even the main cause of the subsequent depression.

Without any detailed analysis of what happened during the twenties, it is possible to infer that distortions were developing in the fabric of prices, wages, costs, and profits, which would not have occurred if the delicate and prompt adjustments postulated by the equilibrium theory of classical economics had been at work. Our economic institutions had become so rigid and immobile as to prevent the necessary adjustments. If this was the case during the period in question, would not a similar concealed imbalance be all the more likely to develop in an economy characterized by full employment, deliberately maintained? And if such an economy began to go downhill, would not an attempt to shore it up by the prop of purchasing power, arbitrarily introduced by the government, merely aggravate its internal maladjustments and postpone the day of reckoning?

Some economists have contended that depressions are necessary



in order to bring about readjustments in the fabric of prices and costs which will permit new expansion of production under the impetus of "natural" forces of demand and supply. During a period of prosperity, they argue, distortions develop which eventually necessitate a reduction of output and employment. If then depression is not allowed to do its work, the economy cannot get under way again. Measures to stabilize specific prices or to prevent liquidation of capital structures or even to mitigate the effects of unemployment are therefore obstacles to enduring recovery. It is quite conceivable that these economists may be correct, given the assumption that the economy is to be left in the main to the equilibrating forces of a free market. Nevertheless the recent experience of depression indicates that human beings will not allow deflation to proceed to its logical end. The amount of insecurity and suffering involved forces democratic governments to intervene. Those in a position effectually to demand relief or protection will get it.

But if maladjustments cannot be corrected by "natural forces," it does not follow that they do not need correction. A policy which stops at creating more purchasing power in the aggregate will not necessarily compensate for the rigidities of prices and costs and the immobilities of capital and labor which develop within a modern system of private enterprise. Some device, or system of devices, must also be applied which will do for the integration of the economy what market forces have failed to do, if a socially desirable allocation of labor and capital is to be approximated. Otherwise we shall be in the position of applying forced draft to drive an engine that has worn-out bearings and leaky valves.

In that case governmental spending to increase employment, whether supported by borrowing or by taxation, might fail to stimulate private enterprise, it might on the contrary aggravate the obstacles in the way of further activity. It can cogently be argued that there would be no great danger in an increased national debt as long as the total national income increased proportionately, but the argument would not hold if business spending should shrink more rapidly than governmental spending expanded. If it did so, government would have to take over a larger and larger share of economic

activity in order to minimize unemployment. In the end it would still be faced with the problem of adjusting prices, costs, and production within the economy in such a way as to satisfy needs in the order of their urgency.

Again the answer may be made, as in the case of monopoly, that the solution of this problem is no less pressing even if the type of full-employment policy advocated in Britain is not attempted. It will arise in any case. Any future depression as severe as that of the thirties is sure to bring about state intervention of some kind, and this intervention may be of a nature far more drastic than that which supporters of the Keynes theories now advocate. If the argument in question indicates the inadequacy of a compensatory fiscal policy, it does not prove that the absence of this policy is any better. Rather it proves that something more would be desirable. It does, however, suggest that those in Britain who are confident that the correct means of preventing unemployment are already known and need only to be applied have less reason for their confidence than they believe.

The practical choice confronting both Britain and the United States is not that between a completely "free" and self-compensating economic order and one which is controlled in the interest of maintaining full employment. The order we have is not wholly free and is not self-compensating. Nor does there seem to be much chance of rendering it so. One instrument after another has been adopted to control its working in one aspect or another, or to compensate for its failures. If these agencies were to be destroyed, the need for them would not disappear. Nor is there much likelihood that they will be abolished. We shall simply have to accept the patent fact that the system is not self-regulating and is likely to become less rather than more so. The real choice open to us concerns the nature of the controls and compensations which ought to be tried.

At the present stage of knowledge, it is impossible either for Americans to be sure that they can avoid another depression or for the British to be confident that they can do so, barring interference from us. But that does not mean that there may not be a real dif-

ference in the policies of the two nations or that the British have no just grounds for their apprehension. They, both officially and as a people, recognize the existence of a problem and are prepared seriously to attempt to solve it. They have set their goals and are ready to proceed. Many in the United States talk and write as if there were no problem, unless those who are trying to solve it are themselves the problem. American conservatives seem to assume that existing institutions have worked satisfactorily in the past and will continue to do so if only we refrain from altering them. The British are entirely justified in fearing the consequences of this attitude. It is certain that we shall have a depression if we begin by supposing that it is necessary to do nothing to avoid one except to do nothing. The British may also have an internally generated depression, but they are not so likely to have one, and are much less likely to have a severe one, because they are willing to accept the risks of a full-employment policy. The two nations would certainly do much better if they would accept these risks jointly than if one of them set off in the other direction.

## ONE WORLD OR TWO?

IN conducting the war and devising the political machinery of world security, the custom is to speak of the Big Three, the Big Four, or the Big Five powers. These terms are justified in terms of manpower, strategic position, or military potential. When it comes to economic importance in world trade, however, there are only a Big Two. The United States and the United Kingdom are so far ahead of the others in exporting and importing capacity that what they do will determine the course of the world economy for years to come. Germany and Japan once rivaled them, but the productive power of both has been ruined, and will be re-created only in the way and to the extent permitted by controls in which Britishers and Americans will be influential.

China has great undeveloped resources, but will for a long time be almost negligible as an exporter and cannot finance her own imports. France, even before the war, was only in the second rank as a commercial nation and will have little ability after it to determine the international trading and financial policies of others. She would be unable to reverse any tendency established by the United States and Britain in unison. If they diverge, she will probably be found in the camp of one or the other.

The Russian economy is the only one which now approaches either the British or the American in industrial capacity. In the future it may very well outdistance them both. Nevertheless, the Soviet Union aims to be as largely self-contained as possible, and normally has a minor necessity either for imports or for the exports necessary to pay for them. Her reconstruction requirements will be large, but she has only a moderate capacity to buy them except by means of credits which must be extended, if they are extended at all, by Britain or America. Her economic policy is such that she probably never will have an over-all export surplus in the sense in which the United States has had one for many years. Russia contains no

profit-seeking private interests which wish to grow by exploiting foreign markets. Nor is she likely to have large export surpluses of particular commodities for some time to come. Her object is to use her whole productive power to increase military security and domestic living levels. On the other hand, her resources are so great and varied that, unlike Britain, she is not likely to become permanently dependent on large imports of food and raw materials which cannot be obtained within her borders.

If the United States and Britain follow harmonious economic policies, therefore, they will for a long period constitute a center of gravity about which the orbits of all other nations must swing. The economic fortunes of the world will be largely determined by the degree of prosperity which the two great trading nations are able to achieve and maintain. The outcome will exert political and military as well as economic influence on the future. Wise and beneficent leadership on the part of the Big Two can promote good will and provide a volume of increasing satisfactions which will minimize the chance of war or civil violence. Cultural advance of all the nations will have its opportunity, and better institutions may develop. If, on the other hand, the Big Two incur economic disaster, new divisions will be promoted. They may in that case cease to be the Big Two, and must surrender their leadership to others, perhaps to Russia. The interests of these two nations require, not only that they act in harmony, but that their action be successful in promoting general economic welfare.

At the moment it is far from certain, however, that they will even have mutually harmonious economic policies. This book constitutes an effort to explain why this is so, and upon what factors the outcome depends. To summarize briefly: Britain, with her comprehensive program for domestic reconstruction and her decreased means of buying the imports which are necessary to her subsistence, must expand her exports of goods by half or more. She is not willing to take any unnecessary chances on the ability to do so. The United States is pressing for greater freedom of international trade, with removal of tariffs and other barriers, and for multilateral commerce on the basis of competitive private enterprise. Britain would prob-

ably be willing to agree to this program if she could be sure of two things. First, she wants to be certain that the United States will not engage in unfair competition for exports, by subsidies or other means of selling more than it buys. Second, she wants to feel confidence that the United States will not ruin her export markets by experiencing an economic collapse which will impoverish Britain's foreign customers. If the United States evinces a tendency to do either or both of these things, Britain will be compelled to try to safeguard her purchasing power and her export markets by barter agreements, exchange control, tariff and quota systems, and other devices which will tend to insulate the members of her system from the American economy.

The choice Britain makes will depend not on the persuasion of words so much as on the compulsion of events. Opinion within the nation extends all the way from doctrinaire adherents of free trade and *laissez faire* to those who believe in planned international trade conducted by governmental buying and selling, no matter what the policy of other countries. But the debate is not carried on in a vacuum. The decision is not a matter of aesthetic or logical choice. Let us suppose that, because of the recognized desirability of remaining friendly with the United States, Britain consents to work toward multilateral trade without discrimination. Then let us suppose that, because of insufficient imports by the United States, world trade falls off, Britain cannot export enough to buy what she needs, the exchange value of the pound is endangered, and she suffers severe unemployment. No matter what theories are held, public pressure will compel the adoption of measures for protection. Those who have advocated such measures will rise to seats of power, if they do not already occupy them. It must be remembered that, even though Bretton Woods is ratified, any nation can withdraw from the International Monetary Fund at any time, as long as that nation fulfills its financial obligations.

Those Englishmen who argue that cooperation with the United States is essential and hence that a restoration of uncontrolled trade should be attempted would be in a very weak position if this course seemed to involve relinquishment of full employment and danger

to the national economic life. There are in Britain, as in the United States, powerful interests which want protection for the sake of their profits. They are influential in one of the two leading political parties—the Conservatives, who originally installed the system of Imperial Preference. The other of the two chief parties—the Labour Party—has a firm commitment to full employment and the other social reforms. It does not, on theoretical grounds, believe in free private enterprise anyway, it wants a partial socialism at home and would have no reluctance to install planning of international trade as well if there seemed to be good reason for doing so. Even many of those theorists who want to try to restore multilateral free trade, because they believe it would work better under favorable circumstances, would not prefer it to an insulated economic system if close economic cooperation with the United States involved sharing an American depression. Insofar as there is a practical choice, therefore, it seems to rest not with Britain so much as with the United States. We may be able to restore a free world trading system with Britain's help if we maintain full employment at home as well. But we can hardly reach the first objective without attaining the second.

A split between the two countries in economic policy, involving as it would both domestic and international measures, would extend through the world. Those nations which are turning to full employment and planning in their domestic affairs would naturally be in the British orbit. The system would include the British Empire and dependencies, all the Commonwealths with the possible exception of Canada, all or most of the nations of Western Europe. Special trade agreements would link with this system Argentina and perhaps other nations from which it would wish to buy in large quantities and to which it could sell manufactured goods in exchange. Russia would continue to play an independent economic role, buying what she wished wherever she could arrange barter or credits. But she is committed to state trading, and would not support the preference of the United States for multilateral, uncontrolled commerce. The United States, together with the Latin American states more closely dependent on her, and perhaps Canada, would suffer an enforced economic isolation.

Such a division of the world into two trading areas could not fail to have grave consequences outside the economic realm. The United States, with its enormous productive capacity, would find difficulty in remaining prosperous without selling to, and buying from, the rest of the world many more goods than in the past. Indeed, the very occasion for British insulation would be the existence of a depression in the United States, or at least the imminence of one. In these circumstances, Americans would be likely to resent fiercely the restrictions placed in the way of their commerce by the barriers erected about the British trading area. Unemployment, business distress, and agricultural depression would not be attributed to domestic causes, but rather to the deliberate action of our great trade rivals. These rivals, in turn, could not avoid at least some of the unpleasant consequences of an American depression. Their troubles would be ascribed by their leaders to influences emanating from this country, and the effort to live without us and exclude our trade from other markets would be redoubled. Trade rivalry always is embittered when there is a slump, as we saw before the war, and the bitterness would be intensified if Britain stood on one side of the fence and the United States on the other.

One important respect in which economic insecurity affects politics is that of imperial and colonial policy. It has long been clear that the struggle for colonial empires has been a cause of trouble, both for the colonial peoples and the imperial powers themselves. Liberals have favored the granting of independence or self-government to colonies and the removal of exclusive economic restrictions on their trade and development. Yet after this war none of the great colonial empires seems ready to pursue this course. The British, the French, the Dutch, and the Belgians have made it clear that they intend to retain their empires and reject any international trusteeship over them.

The reason is partly a desire for military security and national power, gravely threatened by the Axis nations in the war. Fully as much, however, it is an expression of the need to hold together as large an area as possible over which uniform economic policies may be established. The British Empire is the foundation both of the



Imperial Preference tariffs and of the sterling area, established for monetary stability and later employed for exchange control America is saying to Britain, in effect, "Surrender your use of the Empire for these purposes Give us and all others equal opportunities to trade and invest within your world-wide realm, on a free competitive basis" Naturally, Britain hesitates to consent without confidence that the outcome will be advantageous to her Economic divergence between the two nations would be sure to rivet the bands about the British Empire

Even representatives of British labor, who formerly advocated a liberal colonial policy, are now asking themselves why they should abandon India and other regions to capitalist exploitation of the American sort when, if they held power, they could improve the condition of the impoverished masses by the same sort of Socialist planning which they hope to apply in Britain Equal opportunity for profit-seeking trade and investment is not on their agenda at home, why should it be abroad? It would be of no advantage to the Indians, the Burmese, or other dependent peoples, they are inclined to reason, to exchange the exploitative imperialism of the past for the anarchic confusion of a capitalist economy subject to depression and unemployment Is there not a third, and better, course—a course which would necessitate a world-wide realm deliberately controlled in the interest of rising standards of living and full employment?

If there were a divergence in economic policy between Great Britain and the United States, for which each nation would be inclined to blame the other and which might be accompanied by unemployment or low standards of living in each, the argument would not be confined to cool analysis of economic theories The ideological basis for a much more disturbing conflict exists. American spokesmen would attribute the ills of the world to "unsound" and "radical" policies in other countries, indeed, these countries would probably be accused of totalitarianism, since many Americans already have been led to believe that it is impossible to practice planning without losing freedom Englishmen and Europeans in turn would attack the outdated fiscal policies of the United States,

its adherence to a system of private interest which cursed the world with poverty and unemployment, its encouragement of "predatory capitalists" seeking to exploit backward regions, its attempt to enforce on other nations changes in their internal regimes in the interest of the almighty dollar.

In such an event, the world might drift toward an armed clash, which could be set off by the peculiarly explosive mixture of conflict of economic interest, insecurity, material misery, intolerance of the theoretical systems and the practices of others, the projection of blame on these others for internal misfortune. Common sense might prevent so disastrous an outcome, and yet the rift between the two great Western peoples would offer an opportunity to other nations which might seek to advance their own power at the expense of disturbing the peace. Even without any active hostility between Britain and the United States, lack of full cooperation between them opened the road to the rise of Nazism before the Second World War. Division of their interests would allow the playing of one against the other in any new effort to exploit a balance of power. By this means even a resurgent and revengeful Germany or Japan might escape the checks necessary to prevent rearmament and a new try for world dominion.

British advocates of a policy of economic insulation of course wish to invite no such disagreeable consequences. They dismiss lugubrious predictions of this sort as mere nightmares. A trading area pursuing a full-employment policy would be capable, they believe, of bargaining with the United States as it would bargain with others outside its boundaries, by the application of balanced benefits. The United States already trades with Russia, although the latter exercises complete governmental monopoly in buying and selling. Could not the nations comprising the bloc centered on Britain say to a depressed America: "We will buy what we need from you if you will buy an equivalent value from us?" And would not such a bargain prove to be acceptable, if the same amount of exports could be obtained by the United States in no other way? By such means the British policy would be proved to be a method of expanding production and consumption, rather than one of restricting it.

The United States might even be persuaded, in its extremity, to adopt a full-employment program and harmonize its fiscal and monetary program with that of the British trading area. In that case the world could be unified again on a basis of economic expansion.

This might be the outcome, and yet in the meantime valuable assets, both tangible and intangible, would be lost. It is not a chance which Americans, from their own point of view, should be eager to take. If eventually they are to be compelled to follow the line which the British now advocate, why not set out upon it at once without waiting for the depression and the international friction which are, according to this argument, expected to bring Anglo-American harmony? If we begin by seeking full employment in company with the British, they are not so likely to embark on the project of creating a separate trading area of their own. If both nations succeed in maintaining full employment, it may never be necessary to abandon the multilateral free trade which the government of the United States now favors. In any event, such controls of international trade as it may become necessary to introduce can be truly international institutions, in which the United States can participate from the beginning. Any desirable control of output, allotment of production and sales and regulation of prices in such commodities as wheat or rubber, could be established on a world-wide basis and could regard the interests of consumers as well as those of producers.

It is a sound policy on the part of the United States to advocate the abolition of the prewar crazy quilt of restrictions on world trade, to object to discriminatory practices, and to insist that the object must be expansion rather than restriction of production. This aim, however, is not necessarily identical with complete governmental nonintervention in private business activities. Trade controls may be expansionist instead of restrictionist if they bring about enlargement of production and reduction of prices. They may be nondiscriminatory if they are adjusted to the balanced interests of all concerned, instead of being adopted in the interest of a particular nation or pair of nations. They may endeavor to balance international payments, thus creating the fundamental conditions of stability in exchange rates, by enlarging the imports of the countries

having a surplus in their payments rather than by restricting the imports of those having a deficit. The realm of truly international economic planning is a new and untried one, except for a few international commodity agreements. Much remains to be learned about it. The present purpose is merely to point out that nineteenth-century free trade is not the only possible alternative to the maze of protective devices adopted before the war as defenses against depression. If international planning is to be the outcome, it will surely be better to approach it on a global basis rather than as a result of bitter competition between two or more rival trading areas.

The logic of the argument presented in this book leads to one obvious conclusion. It is that the cornerstone of the Anglo-American cooperation which is regarded as essential must be the adoption by both countries of a policy aimed at maintaining full employment within each. In one sense this is a matter for domestic decision within each of the nations, and yet upon it depends the gravest of international consequences. If both pursue parallel aims in this respect, they can agree without much difficulty upon fiscal and monetary policies, international trade policies, exchange stabilization, international investment, control of cartels and monopolies, and all other possible subjects of controversy. It would, indeed, be a great advantage if Britain and the United States would express in a formal agreement their mutual interest in full employment and their belief that all other policies ought to be assessed in the light of this ambition. It might even be wise to set up a joint advisory commission to help coordinate action in pursuit of the objective.

It must be admitted that a commitment of this sort would be daring and adventurous. All the means necessary to fulfill it cannot now be foreseen. But it would be no more daring than the alliance committed to war against national enemies of the two great powers. We could not be sure when we joined our forces to seek the defeat of Germany and Japan that we should succeed. We could not foresee every strategic plan or guard securely against all the chances and fortunes of war. We took the risk because there was unquestioning agreement about the dangerous character of the enemy and the disaster that would follow his victory. We proceeded to organize and

plan for the purpose of winning, even though we knew it might be necessary to change our arrangements as the war developed and even though we could not predict every move of the enemy. Mass unemployment is no less dangerous a menace to the happiness and peace of the world than armed conquest. The fact that we are not, at the beginning, entirely certain that it can be subdued and that we cannot predict exactly the course of the campaign against it should be a spur to our resolution and our ingenuity rather than the contrary.

It would be ignominious indeed if the United States, after standing aside and watching Britain skirt the edges of defeat at the hands of Hitler before we joined our forces with hers against the common enemy, should now stand aside in peace and passively watch Britain struggle to exterminate unemployment when it is clear both that she will have great difficulty in doing so without our aid, and that if we join her in the endeavor we shall be serving our own necessities as well as hers. Not only that, but we shall be benefiting the whole world.

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